

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from _____ to _____

Commission File Number 001-14429

SKECHERS U.S.A., INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

228 Manhattan Beach Blvd., Manhattan Beach, California
(Address of Principal Executive Offices)

90266
(Zip Code)

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

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

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

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

None
(Title of Class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every interactive Data File required to be submitted 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 such files). Yes No

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of June 30, 2018, the aggregate market value of the voting and non-voting Class A and Class B Common Stock held by non-affiliates of the Registrant was approximately \$4.0 billion based upon the closing price of \$30.01 of the Class A Common Stock on the New York Stock Exchange on such date.

The number of shares of Class A Common Stock outstanding as of February 15, 2019: 133,460,317.

The number of shares of Class B Common Stock outstanding as of February 15, 2019: 23,983,312.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement issued in connection with the 2019 Annual Meeting of the Stockholders of the Registrant are incorporated by reference into Part III.

SKECHERS U.S.A., INC. AND SUBSIDIARIES
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FOR THE YEAR ENDED DECEMBER 31, 2018

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This annual report includes our trademarks including Skechers[®], Skechers Performance[™], Skechers GOrun[®], Skechers GOwalk[®], Skechers GOgolf[®], You by Skechers[™], [®], [®], [®], Skechers Cali[™], Relaxed Fit[®], Skecher Street[™], D'Lites[®], DLT-A[™], Skechers Memory Foam[™], BOBS[®], Energy Lights[®], and Twinkle Toes[®], each of which is our property. This report contains additional trademarks of other companies. We do not intend our use or display of other companies' trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including statements with regards to future revenue, projected 2019 operating results, earnings, spending, margins, cash flow, orders, expected timing of shipment of products, inventory levels, future growth or success in specific countries, categories or market sectors, continued or expected distribution to specific retailers, liquidity, capital resources and market risk, strategies and objectives. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or simply state future results, performance or achievements, and can be identified by the use of forward-looking language such as “believe,” “anticipate,” “expect,” “estimate,” “intend,” “plan,” “project,” “will be,” “will continue,” “will result,” “could,” “may,” “might,” or any variations of such words with similar meanings. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected in forward-looking statements, and reported results shall not be considered an indication of our company’s future performance. Factors that might cause or contribute to such differences include:

- global economic, political and market conditions including the challenging consumer retail market in the United States;
- our ability to maintain our brand image and to anticipate, forecast, identify, and respond to changes in fashion trends, consumer demand for the products and other market factors;
- our ability to remain competitive among sellers of footwear for consumers, including in the highly competitive performance footwear market;
- our ability to sustain, manage and forecast our costs and proper inventory levels;
- the loss of any significant customers, decreased demand by industry retailers and the cancellation of order commitments;
- our ability to continue to manufacture and ship our products that are sourced in China and Vietnam, which could be adversely affected by various economic, political or trade conditions, or a natural disaster in China or Vietnam;
- our ability to predict our revenues, which have varied significantly in the past and can be expected to fluctuate in the future due to a number of reasons, many of which are beyond our control; and
- sales levels during the spring, back-to-school and holiday selling seasons.

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

PART I

ITEM 1. BUSINESS

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

GENERAL

We design and market Skechers-branded lifestyle footwear for men, women and children, and performance footwear for men and women under the Skechers Performance brand name. Our footwear reflects a combination of innovation, style, comfort, quality and value that appeals to a broad range of consumers. Our brands are sold through department and specialty stores, athletic and independent retailers, boutiques and internet retailers. In addition to wholesale distribution, our footwear is available at our e-commerce websites and our own retail stores. As of February 1, 2019, we owned and operated 113 concept stores, 170 factory outlet stores and 187 warehouse outlet stores in the United States, and 134 concept stores, 78 factory outlet stores, and 10 warehouse outlet stores internationally. Our objective is to profitably grow our operations worldwide while leveraging our recognizable Skechers brand through our diversified product lines, innovative advertising and diversified distribution channels.

We seek to offer consumers a vast array of stylish and comfortable footwear that satisfies their active, casual, dress casual and athletic footwear needs. Our core consumers are style-conscious men and women attracted to our relevant brand image, fashion-forward designs and affordable product, as well as athletes and fitness enthusiasts attracted to our performance footwear. Many of our best-selling and core styles are also developed for children with colors and materials that reflect a playful image appropriate for this demographic. Further, we offer children a unique collection of footwear designed just for them, including those with innovative light technology.

We believe that brand recognition is an important element for success in the footwear business. We have aggressively marketed our brands through comprehensive marketing campaigns for men, women and children. During 2018, the Skechers brand was supported by print, television, digital and outdoor campaigns for men and women; animated and live action kids’ television and digital campaigns; marathons and other events for Skechers Performance and BOBS from Skechers divisions. To further drive recognition, we have enlisted numerous celebrities, former and current athletes, and influencers to appear in our campaigns, including globally-known recording artists Camila Cabello; sports legends Sugar Ray Leonard, Howie Long, David Ortiz, and Tony Romo; and television personalities and actresses Brooke Burke-Charvet and Kelly Brook. For the Skechers Performance Division, we also had Olympians Meb Keflezighi, Kara Goucher, and Matt Kuchar; and professional golfers Ashlan Ramsey, Belen Mozo, Brooke Henderson, Russell Knox, Wesley Bryan, Billy Andrade, Colin Montgomerie and Edward Cheserek, who won 17 National Collegiate Athletic Association (“NCAA”) distance running titles.

Since 1992, when we introduced our first line, Skechers USA Sport Utility Footwear, we have expanded our product offering and grown our net sales while substantially increasing the breadth and penetration of our account base. Our men’s, women’s and children’s product lines benefit from the Skechers reputation for styling, quality, comfort, innovation and affordability. Our performance lines benefit from our marketing, product development, manufacturing support, and management expertise. To promote innovation and brand relevance, we manage our product lines separately by utilizing dedicated sales and design teams. Our product lines share back office services in order to limit our operating expenses and fully utilize our management’s vast experience in the footwear industry.

SKECHERS LINES

We offer a wide array of Skechers-branded footwear lines for men, women and children, many of which have categories that have developed into well-known names. Most of these categories are marketed and packaged with unique shoe boxes, hangtags and in-store support, and are generally sold through department stores, footwear specialty stores, athletic retailers, Skechers retail stores as well as skechers.com and numerous online accounts. Management evaluates segment performance based primarily on net sales and gross margins; however, sales and costs are not allocated to specific product lines.

In addition, Skechers designs and markets running and golf apparel under the Skechers Performance brand, as well as casual lifestyle apparel under the Skechers and BOBS brands. The apparel is primarily available at Skechers retail stores, but is also available to domestic wholesale accounts and select international partners.

Lifestyle Brands

Skechers USA. Our Skechers USA category for men and women includes: (i) Dress Casuals and Modern Comfort, (ii) Casuals, (iii) Casual Athletic, and (iv) seasonal sandals and boots. Styles are available in several fits including Classic Fit, Relaxed Fit, Wide Fit and Extra Wide.

- The Dress Casuals category for men is comprised of basic “black and brown” men’s shoes that feature shiny leathers and dress details, but may utilize traditional or lugged outsoles as well as value-oriented materials. The Dress Casuals line, which is also referred to as the Modern Comfort collection for women, is comprised of trend-influenced, stylized boots and shoes, which may include leather uppers, shearling or faux fur lining or trim, and water-resistant materials.
- The Casuals line for men and women is defined by lugged outsoles and utilizes value-oriented and leather materials in the uppers. For men, the Casuals category includes “black and brown” boots, shoes and sandals that generally have a rugged urban design—some with industrial-inspired fashion features. For women, the Casuals category includes basic “black and brown” oxfords and slip-ons, lug outsole and fashion boots, and casual sandals. We design and price both the men’s and women’s categories to appeal primarily to younger consumers with broad acceptance across age groups.
- Our Casual Athletic line is comprised of low-profile, sport-influenced streetwear targeted to trend-conscious young men and women. The outsoles are primarily rubber and are sometimes adopted from our men’s Sport and women’s Active lines. This collection features leather or nubuck uppers, but may also include mesh.
- Our seasonal sandals and boots for men and women are designed with many of our existing and proven outsoles, stylized with basic or core uppers as well as fresh looks. These styles are generally made with quality leather uppers, but may also be in canvas or fabric for sandals, and water-resistant materials, faux fur and sherpa linings for boots.

Skechers Sport. Our Skechers Sport footwear collection for men and women includes: (i) lightweight sport athletic lifestyle products, (ii) classic athletic-inspired styles, (iii) sport sandals and booties, and (iv) retro and fashion. Many Skechers Sport styles are enhanced with comfort features such as Skechers Air-Cooled Memory Foam™ insoles, lightweight designs, flexible outsoles and soft uppers such as bio-engineered mesh, soft knit fabrics and stretchable woven materials. Known for bright, multi-colored and solid basic-colored uppers, Skechers Sport is distinguished by its technical performance-inspired looks; however, we generally do not promote the technical performance features of these shoes. Styles are available in several fits including Classic Fit, Relaxed Fit, Wide Fit and Extra Wide.

- Our lightweight sport athletic product is designed with comfort and flexibility in mind. Careful attention is devoted to the cushioning, weight, design and construction by using innovative materials and technologies including Skech-Knit uppers. Designed as a versatile, trend-right athletic shoe suitable for all-day wear, the product line features styles in both bright and classic athletic colors.
- Classic Skechers styles are core-proven looks that continue to be strong performers. With all-day comfort and durable rubber tread, these shoes are intended to be a mainstay of any footwear collection. Many of the designs are in white, black and natural shades, with some athletic accents. The uppers are designed in leather, suede and nubuck.
- Our sport sandals and booties are primarily designed from existing Skechers Sport outsoles and may include many of the same sport features as our sneakers with the addition of new technologies geared toward making comfortable seasonal footwear.
- Retro and fashion styles feature throwback fashionable profiles with sport-inspired features and trend-right silhouettes. At the forefront is the D’Lites® collection with iconic Skechers sneaker looks updated with contemporary Skechers Air-Cooled Memory Foam™ insoles for total comfort. Collaborations of our fashion collections like Skechers D’Lites X *One Piece* that features colorways from the popular manga series help generate buzz and expand awareness the brand.

Skechers Active and Skechers Sport Active. A natural companion to Skechers Sport, Skechers Active and Skechers Sport Active have grown from a casual everyday line into two complete lines of sneakers and casual sneakers for active females of all ages. The Skechers Active line, with lace-ups, Mary Janes, sandals and open back styles, is available in a multitude of colors as well as solid white or black, in knits, fabrics, leathers and meshes, and with various closures—traditional laces, zig-zag and cross straps, among others. The Skechers Sport Active line includes low-profile, lightweight, flexible and sporty styles, many of which have Skechers Air-Cooled Memory Foam™.

Skecher Street™. A bold urban street-inspired sneaker collection for millennials, Gen Y's and young women, Skecher Street™ Los Angeles delivers sneakers, platforms and fashion trainers with premium metallic finishes, sophisticated takes on glimmer embellishments and playful embroidered pairs with star and graphic treatments. Skecher Street™ styles pair the latest trends with comfort features including Air Cooled Memory Foam insoles, the brand's patented Rise Fit technology and contoured barefoot liners.

BOBS from Skechers. At the core of the BOBS from Skechers line is its vast collection of colorful, playful as well as basic espadrilles. The line now also includes wedges, vulcanized looks and comfortable faux fur styles for home. Many styles also include Skechers Memory Foam™.

- The BOBS classic espadrille collection is designed in basic colors with canvas, tweed, crochet and boiled wool uppers, suede and patterned fabrics. We also have a collection with dog and cat prints for our BOBS for Dogs charitable offering.
- BOBS' vulcanized and sport looks have a very youthful and California lifestyle appeal. Primarily designed with canvas uppers but also jersey fabrics, the line features both classic retro looks and fresh colors and materials for a relevant style.

For each pair of specially packaged BOBS from Skechers sold in the United States from September 1, 2015 through August 31, 2018, twenty-five cents was donated to Best Friends to help save the lives of dogs and cats in America's shelters totaling more than \$3.9 million dollars to Best Friends Animal Society. This helped more than 583,000 shelter pets in the United States, including saving the lives of more than 241,000 animals. Skechers also continues to donate new shoes to children in need through the BOBS program for which more than 15.6 million pairs of new kids' shoes have been donated, including approximately 395,000 pairs in 2018. The charitable shoes are primarily donated to charity partner Delivering Good, which then donates the shoes to various reputable charity organizations in the United States and around the world.

Mark Nason. Inspired by classic rock and roll and its trends, the Mark Nason collection originally started in Italy with an exotic offering of boots and accessories. The high-end collection has evolved into Mark Nason Los Angeles, an expanded offering of dress, casual and active styles for style-conscious men, with many featuring Premium Relaxed Fit construction and Memory Foam Lux insoles for enhanced comfort.

Performance Brands

Skechers Performance. Skechers Performance is a collection of technical footwear designed with a focus on a specific activity to maximize performance and promote natural motion. Developed by the Skechers Performance Division, the footwear utilizes the latest advancements in materials and innovative design, including ultra-lightweight Resalyte or the latest 5GEN midsole compounds for comfort and an outsole that delivers responsive feedback. Limited edition features such as Skechers Nite Owl glow-in-the-dark technology or special colorways are featured across multiple product lines.

- **Skechers GOrun.** Skechers GOrun is a collection of lightweight, flexible running shoes that feature a midfoot strike design for efficient running. Skechers GOrun Ride features similar designs to their GOrun counterparts, with enhanced cushioning for elevated comfort and support. Skechers GOrun Forza offers extra stability on long runs. The Skechers GOrun collection includes the high-performance racing and training shoes worn by elite marathon runner Meb Keflezighi. These flagship lines, as well as other Skechers GOrun products, are marketed to serious runners and recreational runners alike, and are available in running stores as well as other retailers. Special limited-edition collections of key running styles are released to commemorate major marathon events in cities like New York, Houston and Los Angeles.
- **Skechers GOwalk.** Skechers GOwalk is designed for walking and casual wear, and offers performance features in a comfortable casual slip-on or lace-up sneaker. The product line features a lightweight and flexible design to promote natural foot movement when walking as well as more advanced performance technologies including a high-rebound GogaMax insole, comfortable 5GEN cushioning and Memory Form Fit for a custom-fit experience. Skechers GOwalk Joy adds knitted upper sneaker styles to the collection. Skechers GO FLEX Walk features a unique articulated, segmented flexible outsole that is designed to move with you. Skechers on-the-GO footwear fuses iconic designs and premium materials with Skechers Performance technologies for comfort and style.
- **Skechers GOtrain.** Skechers GOtrain is designed for the gym and features a wider forefoot and extended outriggers for maximum stability and control at lateral and medial strike points. This shoe is an all-encompassing trainer that meets the need of intense and rigorous workouts.

- **Skechers GOtrail.** The Skechers GOtrail collection features the performance materials and innovations found in our running shoes with rugged designs that can protect against impact during all-terrain runs.
- **Skechers GO GOLF.** Skechers GO GOLF is designed for the golf course and offers a zero heel drop design, which keeps feet in a neutral position that is low to the ground to promote a solid foundation while playing golf. A grip outsole helps with traction control and 5GEN cushioning delivers comfort. Styles in the Skechers GO GOLF Pro line, worn by PGA golfer Matt Kuchar and a roster of other golf pros, also offers H2GO Shield waterproof protection and features replaceable softspikes on the outsole.
- **YOU by Skechers™.** The versatile YOU by Skechers™ footwear collection combines lifestyle with wellness in an eclectic assortment of easy-to-wear and comfortable knitted lace-up and slip-on sneakers for women.

Skechers Kids

The Skechers Kids line includes: (i) Skechers Kids, which is a range of infants', toddlers', boys' and girls' boots, shoes, high-tops, sneakers and sandals, (ii) Skechers' athletic-inspired sneakers with Memory Foam, (iii) Twinkle Toes, (iv) character supported collections, and (v) Lighted footwear.

- The Skechers Kids line is inspired by our many adult styles and includes embellishments or adornments such as fresh colors and fabrics. Some of these styles are also adapted for toddlers with softer, more pliable outsoles and for infants with soft, leather-sole crib shoes. The line's Fashion Hi-Tops subcategory offers trend-forward high-top looks designed to appeal to fashion-conscious young girls.
- Skechers' athletic-inspired collection includes Memory Foam sneakers designed with many of the same meshes, knits and weaves as the company's adult styles such as Skechers Sport in bright colors and patterns, Skechers GORun and Skech-Air athletic sneakers which have a unique visible air-cushioned outsole and a gel-infused memory foam insole. The collection is designed to offer the latest comfort innovations and appeal both to younger kids as well as tweens transitioning to adult shoes.
- Twinkle Toes by Skechers is a line of girls' sneakers and boots that feature bejeweled toe caps and brightly designed uppers. Some styles also include lights. The product line is marketed with the character Twinkle Toes.
- Along with Twinkle Toes, we market several of our collections with characters that resonate with younger consumers. Skechers Super Z-Strap is a line of athletic-styled sneakers with an easy "z"-shaped closure system marketed with the character Z-Strap; and Mega Flex is a line of athletic sneakers with heel springs or articulated blades for boys based on a robot character.
- Skechers' lighted footwear collection for boys and girls includes multiple categories, featuring S-Lights and rechargeable technology with brands like Energy Lights by Skechers footwear. S-Lights combine patterns of lights on the outsoles and sides of the shoes, while Energy Lights by Skechers is a classic high-top or low-top sneaker with a rechargeable lighted outsole that features a variety of colors and light. Luminators feature an innovative illuminated mesh fabric upper for a bolder look.

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

Skechers Work

Skechers Work offers a complete line of men's and women's casuals such as field boots, hikers and athletic shoes, many of which may also include Skechers Memory Foam™. The Skechers Work line includes athletic-inspired, casual safety toe and non-slip safety toe categories that may feature lightweight aluminum safety toe, electrical hazard and slip-resistant technologies, as well as breathable, seam-sealed waterproof membranes. Designed for men and women working in jobs with certain safety requirements, these durable styles are constructed on high-abrasion, long-wearing soles, and feature breathable lining, oil- and abrasion-resistant outsoles offering all-day comfort and prolonged durability. The Skechers Work line incorporates design elements from other Skechers men's and women's lines. The uppers are comprised of high-quality leather, nubuck, trubuck and durabuck. Our safety toe athletic sneakers, boots, hikers and casuals are ideal for environments requiring safety footwear, and offer comfort and safety in dry or wet conditions. Our slip-resistant boots, hikers, athletics, casuals, clogs and comfortable Shape-ups are ideal for the service industry. The Skechers Healthcare Pro SR Series offers slip and stain resistant footwear with air-cooled memory foam in a wide range of colors for medical professionals. Our safety toe products have been independently tested and certified to meet ASTM standards, and our slip-resistant soles have been tested pursuant to the Mark II testing method for slip-resistance. Skechers Work is typically sold through department stores, athletic footwear retailers and specialty shoe stores, and is marketed directly to consumers through business-to-business channels.

PRODUCT DESIGN AND DEVELOPMENT

Our principal goal in product design is to generate fresh and innovative footwear in all of our product lines. Targeted to the active, youthful and style-savvy, we design our lifestyle line to be comfortable, fashionable and marketable to the 12- to 24-year-old consumer, with broader appeal to 5- to 50-year olds, and an exclusive selection for infants and toddlers. Designed by the Skechers Performance Division, our performance products are for professional and recreational athletes who want a technical fitness shoe.

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

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

After a design team arrives at a consensus regarding the fashion themes for the coming season, the designers then translate these themes into our products. These interpretations include variations in product color, material structure and embellishments, which are arrived at after close consultation with our production department. Prototype blueprints and specifications are created and forwarded to our manufacturers for design prototypes. The design prototypes are then sent back to our design teams. Our major retail customers may also review these new design concepts. Customer input not only allows us to measure consumer reaction to the latest designs, but also affords us an opportunity to foster deeper and more collaborative relationships with our customers. We also occasionally order limited production runs that may initially be tested in our concept stores with our test and react program, which gives us further insight into the strength of particular styles and allow our design teams to quickly modify and refine our designs. Generally, the production process can take six to nine months from design concept to commercialization.

For disclosure of product design and development costs during the last three fiscal years, see Note 1 - The Company and Summary of Significant Accounting Policies in the Consolidated Financial Statements included in this annual report.

SOURCING

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

When possible, we seek to use manufacturers that have previously produced our footwear, which we believe enhances continuity and quality while controlling production costs. We source product for styles that account for a significant percentage of our net sales from at least five different manufacturers. During 2018, five of our contract manufacturers accounted for approximately 41.9% of total purchases. One manufacturer accounted for 12.8%, and another accounted for 10.1% of our total purchases. To date, we have not experienced difficulty in obtaining manufacturing services or with the availability of raw materials.

We finance our production activities in part through the use of interest-bearing open purchase arrangements with certain of our contract manufacturers. These facilities currently bear interest at a rate between 0.0% and 0.5% for 30- to 60-day financing, depending on the factory. We believe that the use of these arrangements affords us additional liquidity and flexibility. We do not have any long-term contracts with any of our manufacturers. However, we have long-standing relationships with many of our contract manufacturers and believe our relationships to be good.

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

Production Oversight. To safeguard product quality and consistency, we oversee the key aspects of production from initial prototype manufacture, through initial production runs, to final manufacture. Monitoring of all production is performed in the United States by our in-house production department and in Asia through a 343-person staff working from our offices in China and Vietnam. We believe that our Asian presence allows us to negotiate supplier and manufacturer arrangements more effectively, decrease product turnaround time, and ensure timely delivery of finished footwear. In addition, we require our manufacturers to certify that neither convicted, forced nor indentured labor (as defined under U.S. law), nor child labor (as defined by law in the manufacturer's country) is used in the production process, that compensation will be paid according to local law, and that the factory is in compliance with local safety regulations.

Quality Control. We believe that quality control is an important and effective means of maintaining the quality and reputation of our products. Our quality control program is designed to ensure that not only finished goods meet our established design specifications, but also that all goods bearing our trademarks meet our standards for quality. Our quality control personnel located in China and Vietnam perform an array of inspection procedures at various stages of the production process, including examination and testing of prototypes of key raw materials prior to manufacture, samples and materials at various stages of production and final products prior to shipment. Our employees are on-site at each of our major manufacturers to oversee production. For some of our lower volume manufacturers, our staff is on-site during significant production runs, or we will perform unannounced visits to their manufacturing sites to further monitor compliance with our manufacturing specifications.

ADVERTISING AND MARKETING

With a marketing philosophy of "Unseen, Untold, Unsold," we take a targeted approach to marketing to drive traffic, build brand recognition and properly position our diverse lines within the marketplace. Senior management is directly involved in shaping our image and the conception, development and implementation of our advertising and marketing activities. Our marketing plan has a multi-pronged approach: traditional print and television advertising, supported by digital, outdoor, trend-influenced marketing, public relations, social media, promotions, events and in-store. In addition, we utilize celebrity endorsers in some of our advertisements. We also believe our websites and trade shows are effective marketing tools to both consumers and wholesale accounts. We have historically budgeted advertising as a percentage of projected net sales.

The majority of our advertising is conceptualized by our in-house design team. We believe that our advertising strategies, methods and creative campaigns are directly related to our success. We generally seek to build and drive brand awareness, create purchase intent and inform the consumer about new innovations and lines. Our campaigns are designed to provide merchandise flexibility and to facilitate the brand's direction.

To further build brand awareness and influence consumer spending, we have selectively signed endorsement agreements with celebrities whom we believe will reach new markets. In 2018, our Skechers lifestyle endorsees included Camila Cabello, Brooke Burke-Charvet, Kelly Brook, Sugar Ray Leonard, Howie Long, David Ortiz, and Tony Romo. Our Skechers Performance Division 2018 endorsees included elite runner and Olympic medalist Meb Keflezighi, elite runners Kara Goucher and Edward Cheserek, and professional golfers Matt Kuchar, Belen Mozo, Brooke Henderson, Ashlan Ramsey, Billy Andrade, Russell Knox, Wesley Bryan and Colin Montgomerie. Additionally, several international markets signed local ambassadors for marketing campaigns. Along with these global ambassadors, we also had local or regional ambassadors including pop groups for numerous countries in Asia. From time to time, we may sign other celebrities to endorse our brand name and image in order to strategically market our products among specific consumer groups in the future.

With a targeted approach, our print ads appear in popular fashion, lifestyle and pop culture publications in the United States and around the world.

Our television commercials are produced both in-house and through producers that we have utilized in the past who are familiar with our brands. In 2018, we developed commercials for men, women and children for our Skechers brands, including our animated spots for kids featuring our own action heroes, as well as live action commercials that appeal to older kids and tweens. We also had commercials for our golf collection lines that featured our elite golfers, and for our lifestyle lines that feature musicians, actors and retired athletes. We have found these to be cost-effective ways to advertise on key national and cable programming during high-selling seasons. In 2018, many of our television commercials were translated into multiple languages and aired in numerous markets around the world. Further, select markets have created television commercials specific to their market with local celebrities.

Outdoor. In an effort to reach consumers where they shop and in high-traffic areas as they travel to and from work, at times we execute outdoor campaigns that may include mall and telephone kiosks, billboards, transportation systems and airports, and the covering of large stadiums and buildings around the world. In many markets these now include LED billboards that broadcast our commercials. In addition, we advertised on perimeter boards at soccer matches and professional sporting events in Japan, Europe, Latin America and Canada. We believe these mediums are an effective and efficient way to target specific consumers.

Public Relations/Trend-Influenced Marketing. Our public relations objectives are to accurately position Skechers as a leading footwear brand within the business, general news and trade publications as well as to secure product placement in key magazines and television shows, and place our footwear on the feet of trend-setting influencers, celebrities and their families. We have been featured in leading business publications with interviews of our executives discussing our business strategy and position within the footwear market. We have amassed an array of prominent product placements in leading fashion, lifestyle, sports and pop culture magazines and websites. Additionally, we have partnered with influencers, bloggers and vloggers who have both appeared at events and posted on their social media channels about our footwear.

Social Media. With the goal of engaging with consumers, showcasing our product in relatable settings and relaying the latest news, we have built communities on Facebook, Twitter, Instagram, and YouTube in the United States and in countries around the world where our product is sold. To promote both our lifestyle and performance brands, we have developed several unique channels under Skechers®, Skechers Performance™, BOBS from Skechers and Mark Nason. The social platforms are divided into Skechers and Skechers Performance sites, as well as a BOBS page to feature our charitable footwear line. The online communities also connect consumers around the world, allowing an easy glimpse into trends and events in other countries. Additionally, many countries also utilize platforms specific to their market, such as Line in Japan and Weibo in China.

Promotions and Events. By applying creative sales techniques via a broad spectrum of media, our marketing team seeks to build brand recognition and drive traffic to Skechers retail stores, websites and our retail partners' locations. Skechers' promotional strategies have encompassed in-store specials, charity events, product tie-ins and giveaways and collaborations with national retailers and radio stations. In 2018, we appeared at walks and at numerous marathons in Boston, New York, London, Paris, Santiago and other cities with Skechers Performance branded booths to allow runners the ability to try on and often buy our products. In 2018, the Skechers Performance Division was the footwear and apparel sponsor for the Houston Marathon, the title sponsor of the Skechers Performance Los Angeles Marathon, and the footwear sponsor for Ironman across Europe. Our products were made available to consumers directly or through key accounts at many of these events. In addition, we partnered with key accounts by donating BOBS footwear to children in need at donation events in cities throughout the United States which built our relationships with these accounts as well as the local communities. As part of our BOBS for Dogs charity program we also partnered with Best Friends Animal Society, an organization dedicated to saving the lives of dogs and cats, in Strut your Mutt Dog donation events across the country.

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

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

Trade Shows. To showcase our diverse products to footwear buyers in the United States and Europe and to distributors around the world, we regularly exhibit at leading trade shows. Along with specialty trade shows, we exhibit at FFANY, The Licensing Show and Outdoor Retailer in the United States; MICAM, Gallery and ISPO in Europe; and other international shows.

Digital. In 2018, we launched marketing campaigns on YouTube, Facebook and Instagram, and launched digital campaigns in many international markets to coincide with key selling time periods. We promote and sell our products through our e-commerce sites in the United States, Canada, United Kingdom, Germany, Spain, Chile and China, among other countries, as well as through non-e-commerce sites in many other countries. Our websites are a venue for dialog and feedback from customers about our products, which enhances the Skechers brand experience while driving sales through all our retail channels.

PRODUCT DISTRIBUTION CHANNELS

We have three reportable segments: domestic wholesale sales, international wholesale sales, and retail sales, which includes e-commerce sales. In the United States, our products are available through a network of wholesale customers comprised of department, athletic and specialty stores and online retailers. Internationally, our products are available through wholesale customers in more than 170 countries and territories via our global network of distributors, in addition to our subsidiaries in Asia, Europe, Canada, Central America and South America. Skechers owns and operates retail stores both domestically and internationally through three integrated retail formats—concept, factory outlet and warehouse outlet stores. Each of these channels serves an integral function in the global distribution of our products. In addition, 18 distributors and 48 licensees have opened and operate 700 distributor-owned or -licensed Skechers retail stores and 1,813 licensee-owned Skechers retail stores, respectively, in over 170 countries as of December 31, 2018.

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

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

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

Retail stores and e-commerce. We pursue our retail store strategy through our three integrated retail formats: concept stores, factory outlet stores and warehouse outlet stores. Our three store formats enable us to promote the full Skechers product offering in an attractive environment that appeals to a broad group of consumers. In addition, most of our retail stores are profitable and have a positive effect on our operating results. We review all of our stores for impairment annually or more frequently if events or changes in circumstances require it. We prepare a summary of cash flows for each of our retail stores to assess potential impairment of the fixed assets and leasehold improvements. If the assets are considered to be impaired, the impairment we recognize is the amount by which the carrying value of the assets exceeds the fair value of the assets. In addition, we base the useful lives and related amortization or depreciation expense on our estimate of the period that the assets will generate revenues or otherwise be used by us. As of February 1, 2019, we owned and operated 113 concept stores, 170 factory outlet stores and 187 warehouse outlet stores in the United States, and 134 concept stores, 78 factory outlet stores, and 10 warehouse outlet stores internationally. We plan to open 70 to 80 new stores in 2019.

Our retail stores are supported by our company-owned ecommerce businesses in the United States, Canada, United Kingdom, Germany, Spain, Chile and China, among other countries. These virtual storefronts are designed to provide a positive shopping and brand experience, showcasing our products in an easy-to-navigate format, allowing consumers to browse our selections and purchase our footwear. These virtual stores provide a convenient, alternative shopping environment and brand experience, and are an additional efficient and effective retail distribution channel, which has improved our customer service. They enable consumers to shop, browse, find store locations, socially interact, post a shoe review, photo, video or question, and immerse themselves in our brands.

- ***Concept Stores***

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

The typical Skechers concept store is approximately 3,000 square feet, although in certain markets we have opened concept stores as large as 8,000 square feet or as small as 800 square feet. When deciding where to open concept stores, we identify top geographic markets in the larger metropolitan cities in North America, Europe, Central America, South America and Asia. When selecting a specific site, we evaluate the proposed sites' traffic pattern, co-tenancies, sales volume of neighboring concept stores, lease economics and other factors considered important within the specific location. If we are considering opening a concept store in a shopping mall, our strategy is to obtain space as centrally located as possible in the mall, where we expect foot traffic to be most concentrated. We believe that the strength of the Skechers brand name has enabled us to negotiate more favorable terms with shopping malls that want us to open up concept stores to attract customer traffic to their venues.

- ***Factory Outlet Stores***

Our factory outlet stores are generally located in manufacturers' direct outlet centers in the United States and in select international markets. Our factory outlet stores provide opportunities for us to sell discontinued and excess merchandise, thereby reducing the need to sell such merchandise to discounters at excessively low prices and potentially compromise the Skechers brand image. Skechers' factory outlet stores range in size from approximately 1,800 to 24,100 square feet. Unlike our warehouse outlet stores, inventory in these stores is supplemented by certain first-line styles sold at full retail price points.

- ***Warehouse Outlet Stores***

Our free-standing and inline warehouse outlet stores, which are primarily located throughout the United States and Canada, enable us to liquidate excess merchandise, discontinued lines and odd-size inventory in a cost-efficient manner. Skechers' warehouse outlet stores are typically larger than our factory outlet stores and typically range in size from approximately 4,000 to 30,600 square feet. Our warehouse outlet stores enable us to sell discontinued and excess merchandise that would otherwise typically be sold to discounters at excessively low prices, which could otherwise compromise the Skechers brand image. We seek to open our warehouse outlet stores in areas that are in close proximity to our concept stores to facilitate the timely transfer of inventory that we want to liquidate as soon as practicable.

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

	Number of Store Locations December 31, 2017	Opened during 2018	Closed during 2018	Number of Store Locations December 31, 2018
Domestic stores				
Concept	117	1	(4)	114
Factory Outlet	170	1	—	171
Warehouse Outlet	162	23	—	185
Domestic stores total	449	25	(4)	470
International stores				
Concept	120	14	—	134
Factory Outlet	67	11	—	78
Warehouse Outlet	9	1	—	10
International stores total	196	26	—	222
Joint venture stores				
China Concept	55	21	(13)	63
China Factory Outlet	70	12	(14)	68
Hong Kong Concept	36	6	(3)	39
Hong Kong Outlet	4	—	—	4
India Concept	44	13	—	57
India Outlet	2	2	—	4
Israel Concept	7	3	—	10
Israel Outlet	—	2	—	2
South Korea Concept	6	4	(5)	5
South Korea Outlet	11	11	(5)	17
South East Asia Concept	22	1	(2)	21
South East Asia Outlet	5	2	—	7
Joint venture stores total	262	77	(42)	297
Total domestic, international and joint venture stores	907	128	(46)	989

International Wholesale. Our products are sold in more than 170 countries and territories throughout the world. We generate revenues from outside the United States from three principal sources: (i) direct sales to department stores and specialty retail stores through our joint ventures in Asia and the Middle East, as well as through our subsidiaries in the Americas, Europe, and Japan; (ii) sales to foreign distributors who distribute our footwear to department stores and specialty retail stores in select countries and territories across Asia, South America, Africa, the Middle East and Australia; and (iii) to a lesser extent, royalties from licensees who manufacture and distribute our non-footwear products outside the United States.

We believe that international distribution of our products represents a significant opportunity to increase net sales and profits. We intend to further increase our share of the international footwear market by heightening our marketing in those countries in which we currently have a presence through our international advertising campaigns, which are designed to establish Skechers as a global brand synonymous with trend-right casual shoes.

- **International Subsidiaries**

- *Europe*

We currently merchandise, market and distribute product in most of Europe through the following subsidiaries: Skechers USA Ltd., with its offices and showrooms in London, England; Skechers S.a.r.l., with its offices in Lausanne, Switzerland; Skechers USA France S.A.S., with its offices and showrooms in Paris, France; Skechers USA Deutschland GmbH, with its offices and showrooms in Dietzenbach, Germany; Skechers USA Iberia, S.L., with its offices and showrooms in Madrid, Spain; Skechers USA Benelux B.V., with its offices and showrooms in Waalwijk, the Netherlands; Skechers USA Italia S.r.l., with its offices and showrooms in Milan, Italy; Skechers CEE, Kft. with its offices and showrooms in Budapest, Hungary as well as regional showrooms in Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Kosovo, Macedonia, Moldova, Montenegro, Romania, Serbia, Slovakia and Slovenia. To accommodate our European subsidiaries' operations, we operate a 1.3 million square-foot distribution center in Liege, Belgium.

Canada

We currently merchandise, market and distribute product in Canada through Skechers USA Canada, Inc. with its offices and showrooms outside Toronto in Mississauga, Ontario. Product sold in Canada is primarily sourced from our U.S. distribution center in Rancho Belago, California. We have company-owned retail stores in key locations across Canada.

South America and Central America

We currently merchandise, market and distribute product in South America and Central America through the following subsidiaries: Skechers Do Brasil Calcados LTDA, with its offices and showrooms located in Sao Paulo, Brazil; Comercializadora Skechers Chile Limitada, with its offices and showrooms located in Santiago, Chile; Skechers Latin America LLC, with its offices and showrooms in Panama City, Panama as well as regional showrooms in Panama, Peru, Colombia and Costa Rica. Our Latin America subsidiary also distributes products in the Caribbean, Ecuador, Guatemala, El Salvador, Honduras and Nicaragua. Product sold in South America and Central America is primarily shipped directly from our contract manufacturers' factories in China and Vietnam. We have retail stores in key locations such as Santiago, Panama City, Bogota, Lima and Sao Paulo.

Japan

We currently merchandise, market and distribute product in Japan through our wholly-owned subsidiary, Skechers Japan GK, with its offices and showrooms located in Tokyo, Japan. Product sold in Japan is primarily shipped directly from our contract manufacturers' factories in China. We have retail stores in key locations such as Osaka and Tokyo.

China and Hong Kong

We have a 50% interest in a joint venture in China and a minority interest in a joint venture in Hong Kong that operate and generate net sales in those countries. Under the joint venture agreements, the joint venture partners contribute capital in proportion to their respective ownership interests. We have retail stores in key locations such as Shanghai, Beijing, Guangzhou, Hong Kong and Macau. These joint ventures are consolidated in our financial statements.

Malaysia and Singapore

We have a 50% interest in a joint venture in Malaysia and Singapore that operates and generates net sales in those countries. Under the joint venture agreement, the joint venture partners contribute capital in proportion to their respective ownership interests. We have retail stores in key locations such as Singapore and Kuala Lumpur. These joint ventures are consolidated in our financial statements.

India

We have a 51% interest in Skechers South Asia Private Limited and Skechers Retail India Private Limited, which are both joint ventures, that operate and generate net sales in India. Under the joint venture agreements, the joint venture partners contribute capital in proportion to their respective ownership interests. We have retail stores in key locations such as Bangalore, Mumbai and New Delhi. These joint ventures are consolidated in our financial statements. In 2019, we entered into an agreement to purchase the minority interest in our India joint venture that we did not own for \$82.5 million which will make our India joint venture a wholly owned subsidiary.

Israel

We have a 51% interest in Skechers Ltd. (Israel), which is a joint venture that operates and generates net sales in Israel. Under the joint venture agreement, the joint venture partners contribute capital in proportion to their respective ownership interests. We have retail stores in key locations such as Jerusalem and Tel Aviv. This joint venture is consolidated in our financial statements.

South Korea

We have a 65% interest in Skechers Korea Co., Ltd., which is a joint venture that operates and generates net sales in South Korea. Under the joint venture agreement, the joint venture partners contribute capital in proportion to their respective ownership interests. We have retail stores in key locations such as Seoul and Busan. This joint venture is consolidated in our financial statements.

- **Distributors and Licensees**

Where we do not sell directly through our international subsidiaries and joint ventures, our footwear is distributed through an extensive network of more than 22 distributors who sell our products to department, athletic and specialty stores. As of December 31, 2018, we also had agreements with 18 of these distributors and 48 licensees regarding 700 distributor-owned or licensed Skechers retail stores and 1,813 licensee-owned Skechers retail stores, respectively. Our distributors, licensees and franchisees own and operate the following retail stores in more than 170 countries around the world:

	Number of Store Locations December 31, 2017	Opened during 2018	Closed during 2018	Number of Store Locations December 31, 2018
Distributor, licensee and franchise stores				
Africa Concept	46	8	(9)	45
Africa Outlet	—	1	—	1
Asia Concept	754	261	(67)	948
Asia Factory Outlet	334	105	(39)	400
Australasia Concept	60	7	—	67
Australasia Outlet	15	5	—	20
Central America Concept	7	2	—	9
Europe Concept	174	75	(43)	206
Europe Factory Outlet	15	10	—	25
Middle East Concept	148	10	(2)	156
Middle East Factory Outlet	4	—	—	4
North America Concept	64	5	—	69
North America Factory Outlet	17	—	—	17
South America Concept	25	4	—	29
Total distributor, licensee and franchise stores	1,663	493	(160)	1,996

Distributors and licensees are responsible for their respective stores' operations, have ownership of their respective stores' assets, and select the broad collection of our products to sell to consumers in their regions. In order to maintain a globally consistent image, we provide architectural, graphic and visual guidance and materials for the design of the stores, and we train the local staff on our products and corporate culture. We intend to expand our international presence and global recognition of the Skechers brand name by continuing to sell our footwear to foreign distributors and by opening retail stores with distributors that have local market expertise.

For disclosure of financial information about geographic areas and segment information for our three reportable segments—domestic wholesale sales, international wholesale sales, and retail sales, see Note 19 – Segment and Geographic Reporting in the consolidated financial statements included in this annual report.

LICENSING

We believe that selective licensing of the Skechers brand name and our product line names to manufacturers may broaden and enhance the individual brands without requiring significant capital investments or additional incremental operating expenses. Our multiple product lines plus additional subcategories present many potential licensing opportunities on terms with licensees that we believe will provide more effective manufacturing, distribution or marketing of non-footwear products. We also believe that the reputation of Skechers and its history in launching brands has also enabled us to partner with reputable non-footwear brands to design and market their footwear.

As of February 1, 2019, we had 22 active domestic and international licensing agreements in which we are the licensor. These include Skechers-branded kids' apparel; bags, backpacks and lunch boxes; belts, wallets and watches; headwear, socks and shoe care; prescription and sunglass eyewear; outerwear, swimwear, underwear, sleepwear and medical scrubs; fitness, yoga and running accessories; consumer electronics; bicycles and safety gear and cold weather products. Additional category-specific collections include Skechers Sport apparel, bags, backpacks and headwear; Twinkle Toes backpacks, lunchboxes, do-it-yourself fashion kits, sunglasses and hair accessories; and Skechers Work socks. We also have BOBS for DOGS pet accessories in Petco. We have international licensing agreements for the design and distribution of men's, women's and kids' apparel in the United Kingdom; socks throughout Europe; bags and backpacks in the Philippines, Taiwan, Australia, New Zealand, Europe and the Middle East; apparel, socks, headwear, bags, backpacks in Indonesia; apparel, socks, bags in Mexico; bags, backpacks, luggage, wallets, apparel, watches, medical scrubs and accessories in Latin America; and watches in the Philippines.

DISTRIBUTION FACILITIES AND OPERATIONS

We believe that strong distribution support is a critical factor in our operations. Once manufactured, our products are packaged in shoe boxes bearing bar codes that are shipped either: (i) to our approximate 1.8 million square-foot distribution center located in Rancho Belago, California, (ii) to our approximate 1.3 million square-foot European Distribution Center (“EDC”) located in Liege, Belgium, (iii) to our company-operated distribution centers or third-party distribution centers in Central America, South America and Asia or (vi) directly from third-party manufacturers to our other international customers and other international third-party distribution centers. Upon receipt at either of the distribution centers, merchandise is inspected and recorded in our management information system and packaged according to customers’ orders for delivery. Merchandise is shipped to customers by whatever means each customer requests, which is usually by common carrier. The distribution centers have multi-access docks, enabling us to receive and ship simultaneously, and to pack separate trailers for shipments to different customers at the same time. We have an electronic data interchange system (“EDI system”) which is linked to some of our larger customers. This system allows these customers to automatically place orders with us, thereby eliminating the time involved in transmitting and inputting orders, and it includes direct billing and shipping information.

INTELLECTUAL PROPERTY RIGHTS

We own and utilize a variety of trademarks, including the Skechers trademark. We have a significant number of both registrations and pending applications for our trademarks in the United States. In addition, we have trademark registrations and trademark applications in approximately 139 foreign countries. We also have design patents and pending design and utility patent applications in both the United States and approximately 21 foreign countries. We continuously look to increase the number of our patents and trademarks both domestically and internationally, where necessary to protect valuable intellectual property. We regard our trademarks and other intellectual property as valuable assets, and believe that they have significant value in marketing our products. We vigorously protect our trademarks against infringement, including through the use of cease and desist letters, administrative proceedings and lawsuits.

We rely on trademark, patent, copyright and trade secret protection, non-disclosure agreements and licensing arrangements to establish, protect and enforce intellectual property rights in our logos, trade names and in the design of our products. In particular, we believe that our future success will largely depend on our ability to maintain and protect the Skechers trademark and other key trademarks. Despite our efforts to safeguard and maintain our intellectual property rights, we cannot be certain that we will be successful in this regard. Furthermore, we cannot be certain that our trademarks, products and promotional materials or other intellectual property rights do not, or will not, violate the intellectual property rights of others, that our intellectual property would be upheld if challenged, or that we would, in such an event, not be prevented from using our trademarks or other intellectual property rights. Such claims, if proven, could materially and adversely affect our business, financial condition, results of operations and cash flows. In addition, although any such claims may ultimately prove to be without merit, the necessary management attention and associated legal costs with litigation or other resolution of future claims concerning trademarks and other intellectual property rights could materially and adversely affect our business, financial condition and results of operations. We have sued and have been sued by third parties for infringement of intellectual property. It is our opinion that none of these claims filed against us has materially impaired our ability to utilize our intellectual property rights.

The laws of certain foreign countries do not protect intellectual property rights to the same extent, or in the same manner, as do the laws of the United States. Although we continue to implement protective measures and intend to defend our intellectual property rights vigorously, these efforts may not be successful, or the costs associated with protecting our rights in certain jurisdictions may be prohibitive. From time to time, we discover products in the marketplace that are counterfeit reproductions of our products or that otherwise infringe upon intellectual property rights held by us. Actions taken by us to establish and protect our trademarks and other intellectual property rights may not be adequate to prevent imitation of our products by others, or to prevent others from seeking to block sales of our products as violating trademarks and intellectual property rights. If we are unsuccessful in challenging a third party’s products on the basis of infringement of our intellectual property rights, continued sales of such products by that or any other third party could adversely impact the Skechers brand, result in the shift of consumer preferences away from our products, and generally have a material adverse effect on our business, financial condition, results of operations and cash flows.

COMPETITION

The global footwear industry is a competitive business. Although we believe that we do not compete directly with any single company with respect to its entire range of products, our products compete with other branded products within their product category as well as with private label products sold by retailers, including some of our customers. Our casual shoes and utility footwear compete with footwear offered by companies such as Columbia Sportswear Company, Converse by Nike, Inc., Deckers Outdoor Corporation, Kenneth Cole Productions Inc., Steven Madden, Ltd., The Timberland Company, V.F. Corporation and Wolverine World Wide, Inc. Our athletic lifestyle and performance shoes compete with footwear offered by companies such as Nike, Inc., adidas AG, Reebok International Ltd., Puma SE, ASICS America Corporation, New Balance Athletic Shoe, Inc. and Under Armour, Inc. The

intense competition among these companies and the rapid changes in technology and consumer preferences in the markets for performance footwear, including the walking fitness category, constitute significant risk factors in our operations. Our children's shoes compete with footwear offered by these companies and with other brands such as Stride Rite by Wolverine World Wide, Inc. In varying degrees, depending on the product category involved, we compete on the basis of style, price, quality, comfort and brand name prestige and recognition, among other factors. These and other competitors pose challenges to our market share in domestic and international markets. We also compete with numerous manufacturers, importers and distributors of footwear for the limited shelf space available for displaying such products to the consumer. Moreover, the general availability of contract manufacturing capacity allows ease of access by new market entrants. Some of our competitors are larger, have been in existence for a longer period of time, have strong brand recognition, have captured greater market share and/or have substantially greater financial, distribution, marketing and other resources than we do. We cannot be certain that we will be able to compete successfully against present or future competitors, or that competitive pressures will not have a material adverse effect on our business, financial condition, results of operations and cash flows.

EMPLOYEES

As of January 31, 2019, we employed approximately 12,600 persons, of whom approximately 5,400 were employed on a full-time basis and approximately 7,200 were employed on a part-time basis, primarily in our retail stores. None of our employees are subject to a collective bargaining agreement. We believe that our relations with our employees are satisfactory.

ITEM 1A. RISK FACTORS

In addition to the other information in this annual report, the following factors should be considered in evaluating us and our business.

Our Future Success Depends On Our Ability To Maintain Our Brand Name And Image With Consumers.

Our success to date has in large part been due to the strength of the Skechers brand. Maintaining, promoting and growing our brand name and image depends on sustained effort and commitment to, and significant investment in, both the successful development of high-quality, innovative, fashion forward products, and fresh and relevant marketing and advertising campaigns. Even if we are able to timely and appropriately respond to changing consumer preferences and trends with new high-quality products, our marketing and advertising campaigns may not resonate with consumers, or consumers may consider our brand to be outdated or associated with footwear styles that are no longer popular or relevant. Our brand name and image with consumers could also be negatively impacted if we or any of our products were to receive negative publicity, whether related to our products or otherwise. If we are unable to maintain, promote and grow our brand image, then our business, financial condition, results of operations and cash flows could be materially and adversely affected.

Our Future Success Also Depends On Our Ability To Respond To Changing Consumer Preferences, Identify And Interpret Consumer Trends, And Successfully Market New Products.

The footwear industry is subject to rapidly changing consumer preferences. The continued popularity of our footwear and the development of new lines and styles of footwear with widespread consumer appeal, including consumer acceptance of our performance footwear, requires us to accurately identify and interpret changing consumer trends and preferences, and to effectively respond in a timely manner. Continuing demand and market acceptance for both existing and new products are uncertain and depend on the following factors:

- substantial investment in product innovation, design and development;
- commitment to product quality; and
- significant and sustained marketing efforts and expenditures, including with respect to the monitoring of consumer trends in footwear specifically, and in fashion and lifestyle categories generally.

In assessing our response to anticipated changing consumer preferences and trends, we frequently must make decisions about product designs and marketing expenditures several months in advance of the time when actual consumer acceptance can be determined. As a result, we may not be successful in responding to shifting consumer preferences and trends with new products that achieve market acceptance. Because of the ever-changing nature of consumer preferences and market trends, a number of companies in the footwear industry, including ours, experience periods of both rapid growth, followed by declines, in revenue and earnings. If we fail to identify and interpret changing consumer preferences and trends, or are not successful in responding to these changes with the timely development of products that achieve market acceptance, we could experience excess inventories, higher than normal

markdowns, returns, order cancellations or an inability to profitably sell our products, and our business, financial condition, results of operations and cash flows could be materially and adversely affected.

Our Business Could Be Harmed If We Fail To Maintain Proper Inventory Levels.

We place orders with our manufacturers for some of our products prior to the time we receive all of our customers' orders. We do this to minimize purchasing costs, the time necessary to fill customer orders and the risk of non-delivery. We also maintain an inventory of certain products that we anticipate will be in greater demand. Any unanticipated decline in the popularity of Skechers footwear or other unforeseen circumstances may make it difficult for us and our customers to accurately forecast product demand trends, and we may be unable to sell the products we have ordered in advance from manufacturers or that we have in our inventory. Inventory levels in excess of customer demand may result in inventory write-downs and the sale of excess inventory at discounted prices, which could significantly impair our brand image and have a material adverse effect on our operating results, financial condition and cash flows. Conversely, if we underestimate consumer demand for our products or if our manufacturers fail to supply the quality products that we require at the time we need them, we may experience inventory shortages. Inventory shortages might delay shipments to customers, negatively impact retailer and distributor relationships, and diminish brand loyalty.

We Face Intense Competition, Including Competition From Companies In The Performance Footwear Market and Those With Significantly Greater Resources Than Ours, And If We Are Unable To Compete Effectively With These Companies, Our Market Share May Decline And Our Business Could Be Harmed.

We face intense competition from other established companies in the footwear industry. Our competitors' product offerings, pricing, costs of production, and advertising and marketing expenditures are highly competitive areas in our business. If we do not adequately and timely anticipate and respond to our competitors, consumer demand for our products may decline significantly. A number of our competitors have significantly greater financial, technological, engineering, manufacturing, marketing and distribution resources than we do. Their greater capabilities in these areas may enable them to better withstand periodic downturns in the footwear industry, compete more effectively on the basis of price and production, keep up with rapid changes in footwear technology, and more quickly develop new products. New companies may also enter the markets in which we compete, further increasing competition in the footwear industry. In addition, negative consumer perceptions of our performance features due to our historical reputation as a fashion and lifestyle footwear company may place us at a competitive disadvantage in the performance footwear market. We may not be able to compete successfully in the future, and increased competition may result in price reductions, cost increases, reduced profit margins, loss of market share and an inability to generate cash flows that are sufficient to maintain or expand our development and marketing of new products, which would materially adversely impact our business, results of operations and financial condition.

Our Operating Results Could Be Negatively Impacted If Our Sales Are Concentrated In Any One Style Or Group Of Styles.

If any single style or group of similar styles of our footwear were to represent a substantial portion of our net sales, we could be exposed to risk should consumer demand for such style or group of styles decrease in subsequent periods. We attempt to mitigate this risk by offering a broad range of products, and no style comprised over 5% of our gross wholesale sales during 2018 or 2017. However, this may change in the future, and fluctuations in sales of any style representing a significant portion of our future net sales could have a negative impact on our operating results.

The Uncertainty Of Global Market Conditions May Continue To Have A Negative Impact On Our Business, Results Of Operations Or Financial Condition.

While global economic conditions have recently improved slightly, their uncertain state, including the challenging consumer retail market in the United States, continues to negatively impact our business, which depends on the general economic environment and levels of consumers' discretionary spending that affect not only the ultimate consumer, but also retailers, who are our primary direct customers. If the current economic situation does not improve or if it weakens, we may not be able to maintain or increase our sales to existing customers, make sales to new customers, open and operate new retail stores, maintain sales levels at our existing stores, maintain or increase our international operations on a profitable basis, or maintain or improve our earnings from operations as a percentage of net sales. Additionally, if there is an unexpected decline in sales, our results of operations will depend on our ability to implement a corresponding and timely reduction in our costs and manage other aspects of our operations. These challenges include (i) managing our infrastructure, (ii) hiring and maintaining, as required, the appropriate number of qualified employees, (iii) managing inventory levels and (iv) controlling other expenses. If the uncertain global market conditions continue for a significant period of time or worsen, our results of operations, financial condition, and cash flows could be materially adversely affected.

Our Business Could Be Adversely Affected By Changes In The Business Or Financial Condition Of Significant Customers Due To Global Economic Conditions.

The global financial crisis affected the banking system and financial markets and resulted in a tightening in the credit markets, more stringent lending standards and terms, and higher volatility in fixed income, credit, currency and equity markets. In addition, our business could be adversely affected by other economic conditions, such as the insolvency of certain of our key distributors, which could impair our distribution channels, or the diminished liquidity or an inability to obtain credit to finance purchases of our product

by our significant customers. Our customers may also experience weak demand for our products or other difficulties in their businesses. If economic, financial or political conditions in global markets deteriorate in the future, demand may be lower than forecasted and insufficient to achieve our anticipated financial results. Any of these events would likely harm our business, results of operations, financial condition and cash flows.

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

During 2018, 2017 and 2016, our net sales to our five largest customers accounted for approximately 10.4%, 10.5% and 11.3% of total net sales, respectively. No customer accounted for more than 10.0% of our net sales during 2018, 2017 and 2016. No customer accounted for more than 10.0% of trade receivables at December 31, 2018 and 2017. These customers are primarily retailers who also distribute products for our competitors. 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 May Experience Losses Because Of The Inability To Collect Accounts Receivable If Our Customers Are Unable To Pay Their Debts To Us When Due.

We rely on our network of domestic and international wholesale customers, comprised of department, athletic and specialty stores and online retailers, to distribute our products. Certain of our wholesale customers may from time to time experience bankruptcy, insolvency, and/or an inability to pay their debts to us as they come due. If our wholesale customers suffer significant financial difficulty, they may be unable to pay their debts to us timely or at all, which could have a material adverse effect on our results of operations. It is possible that wholesale customers may contest their contractual obligations to us under bankruptcy laws or otherwise. Significant customer bankruptcies could further adversely affect our net sales and increase our operating expenses by requiring larger accruals for bad debt expense. In addition, even when our contracts with these customers are not contested, if customers are unable to meet their obligations on a timely basis, it could adversely affect our ability to collect receivables. Further, we may have to negotiate significant discounts and/or extended financing terms with these customers in such a situation. If we are unable to collect upon our accounts receivable as they come due in an efficient and timely manner, our business, financial condition, or results of operations may be materially adversely affected. We also face risk from international customers that file for bankruptcy protection in foreign jurisdictions, as the application of foreign bankruptcy laws may be more difficult to predict. Although we believe that we have sufficient reserves to cover anticipated customer bankruptcies, there can be no assurance that such reserves will be adequate, and if they are not adequate, our business, cash flows, operating results and financial condition would be adversely affected.

Our Global Retail Business Has Required, And Will Continue To Require, A Substantial Investment And Commitment Of Resources And Is Subject To Numerous Risks And Uncertainties.

Our global retail business has required substantial investments in leasehold improvements, inventory and personnel. We have also made substantial operating lease commitments for retail space worldwide. Due to the high fixed-cost structure associated with our global retail business, a decline in sales or the closure or poor performance of individual or multiple stores could result in significant lease termination costs, write-offs or impairments of leasehold improvements, and employee-related termination costs. The success of our global retail operations also depends on our ability to identify and adapt to changes in consumer spending patterns and retail shopping preferences globally, including the shift from brick and mortar to e-commerce and mobile channels, and our ability to effectively develop our e-commerce and mobile channels. Our failure to successfully respond to these factors could adversely affect our retail business, as well as damage our brand and reputation, and could materially affect our results of operations, financial position and cash flows.

Our Quarterly Revenues And Operating Results Fluctuate As A Result Of A Variety Of Factors, Including Seasonal Fluctuations In Demand For Footwear, Delivery Date Delays And Potential Fluctuations In Our Estimated Annualized Tax Rate, Which May Result In Volatility Of Our Stock Price.

Our quarterly revenues and operating results have varied significantly in the past and can be expected to fluctuate in the future due to a number of factors, many of which are beyond our control. Our major customers have no obligation to purchase forecasted amounts, may and have canceled orders in the past, and may change delivery schedules or change the mix of products ordered with minimal notice and without penalty. As a result, we may not be able to accurately predict our quarterly sales. In addition, sales of footwear products have historically been somewhat seasonal in nature, with the strongest domestic sales generally occurring in our second and third quarters for the back-to-school selling season. Domestically, back-to-school sales typically ship in June, July and August, and delays in the timing, cancellation, or rescheduling of these customer orders and shipments by our wholesale customers

could negatively impact our net sales and results of operations for our second or third quarters. More specifically, the timing of when products are shipped is determined by the delivery schedules set by our wholesale customers, which could cause sales to shift between our second and third quarters. Because our expense levels are partially based on our expectations of future net sales, our expenses may be disproportionately large relative to our revenues, and we may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shifts, which could have a material adverse effect on our operating results.

Our annualized tax rate is based on projections of our domestic and international operating results for the year, which we review and revise as necessary at the end of each quarter, and it is highly sensitive to fluctuations in projected international earnings. Any quarterly fluctuations in our annualized tax rate that may occur could have a material impact on our quarterly operating results. As a result of these specific and other general factors, our operating results will likely vary from quarter to quarter, and the results for any particular quarter may not be necessarily indicative of results for the full year. Any shortfall in revenues or net earnings from levels expected by securities analysts and investors could cause a decrease in the trading price of our Class A Common Stock.

Foreign Currency Exchange Rate Fluctuations Could Have A Material Adverse Effect On Our Business And Results Of Operations.

Foreign currency fluctuations affect our revenue and profitability. Changes in currency exchange rates may impact our financial results positively or negatively in one period and not another, which may make it difficult to compare our operating results from different periods. Currency exchange rate fluctuations may also adversely impact third parties that manufacture our products by making their costs of raw materials or other production costs more expensive and more difficult to finance, thereby raising prices for our company, our distributors and/or our licensees. We do not currently engage in hedging activities with respect to these currency exchange rate risks. For a more detailed discussion of the risks related to foreign currency fluctuation, see Item 7A: “Quantitative and Qualitative Disclosures About Market Risk.”

In addition, our foreign subsidiaries purchase products in U.S. dollars in which the cost of those products will vary depending on the foreign currency rates and will impact the price charged to customers. Our foreign distributors also purchase products in U.S. dollars and sell in local currencies, which impacts the price to foreign consumers. As the U.S. dollar strengthens relative to foreign currencies, our revenues and profits are reduced when translated into U.S. dollars and our margins may be negatively impacted by the increase in product costs due to foreign currency rates. Although we typically work to mitigate this negative foreign currency transaction impact through price increases and further actions to reduce costs, we may not be able to fully offset the impact, if at all. Our success depends, in part, on our ability to manage or mitigate these foreign currency impacts as changes in the value of the U.S. dollar relative to other currencies could have a material adverse effect on our business, results of operations, financial position and cash flows.

Recent U.S. Tax Legislation May Materially Adversely Affect Our Financial Condition, Results of Operations and Cash Flows.

U.S. tax legislation enacted at the end of 2017 has significantly changed the U.S. federal income taxation of U.S. corporations, by reducing the U.S. corporate income tax rate, permitting immediate expensing of certain capital expenditures, adopting elements of a territorial tax system, imposing a one-time transition tax (“Transition Tax”) on all undistributed earnings and profits of certain U.S.-owned foreign corporations, revising the rules governing foreign tax credits, and introducing new anti-base-erosion provisions. Many of these changes were effective immediately, without any transition periods or grandfathering for existing transactions. The legislation is unclear in many respects and could be subject to potential amendments and technical corrections, as well as interpretations and implementing regulations by the U.S. Treasury Department (“Treasury”) and U.S. Internal Revenue Service (“IRS”), any of which could lessen or increase certain adverse impacts of the legislation. In addition, it is unclear how these U.S. federal income tax changes will affect state and local taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities.

While some of the changes made by the tax legislation may adversely affect the Company in one or more reporting periods and prospectively, other changes may be beneficial on a going forward basis.

An Increase In Our Effective Tax Rate Could Have A Material Adverse Effect On Our Results Of Operations And Financial Position.

A significant amount of our foreign earnings are generated in low or zero tax jurisdictions. As a result, our income tax expense has historically been lower than the tax computed at the U.S. statutory income tax rate. Our future effective tax rates could be unfavorably affected by a number of factors, including but not limited to, changes in the tax rates or the tax rules and regulations (including rules and regulations related to recently enacted U.S. tax legislation), or in the interpretation thereof, in the jurisdictions in which we do business; decreases in the amount of earnings in countries with low statutory tax rates; increases in the amount of earnings in countries with high statutory tax rates; or if we need to make significant taxable distributions of foreign earnings for which

foreign taxes have not been provided. An increase in our effective tax rate could have a material adverse effect on our business, results of operations, financial position and cash flows.

Changes In Tax Laws Or The Potential Imposition Of Additional Duties, Quotas, Tariffs And Other Trade Restrictions Could Have An Adverse Impact On Our Sales And Profitability.

All of our products manufactured overseas and imported into the United States, the European Union (“EU”) and other countries are subject to customs duties collected by customs authorities. Customs information submitted by us is routinely subject to review by customs authorities. We are unable to predict whether there may be unfavorable changes in tax laws in the United States or overseas, additional customs duties, quotas, tariffs, anti-dumping duties, safeguard measures, cargo restrictions to prevent terrorism or other trade restrictions imposed on the importation of our products in the future. Such actions could adversely affect our ability to produce and market footwear at competitive prices and might have an adverse impact on the sales and profitability of Skechers.

Our International Sales And Manufacturing Operations Are Subject To The Risks Of Doing Business Abroad, Particularly In China and Vietnam, Which Could Affect Our Ability To Sell Or Manufacture Our Products In International Markets, Obtain Products From Foreign Suppliers Or Control The Costs Of Our Products.

Substantially all of our net sales during the year ended December 31, 2018, were derived from sales of footwear manufactured in foreign countries, with most manufactured in China and Vietnam. We also sell our footwear in several foreign countries and plan to increase our international sales efforts as part of our growth strategy. Foreign manufacturing and sales are subject to a number of risks, including the following: political and social unrest, including terrorism; changing economic conditions, including higher labor costs; increased costs of raw materials; currency exchange rate fluctuations; labor shortages and work stoppages; electrical shortages; transportation delays; loss or damage to products in transit; expropriation; nationalization; the adjustment, elimination or imposition of domestic and international duties, tariffs, quotas, import and export controls and other non-tariff barriers; exposure to different legal standards (particularly with respect to intellectual property); compliance with foreign laws; and changes in domestic and foreign governmental policies. We have not, to date, been materially affected by any such risks, but we cannot predict the likelihood of such developments occurring or the resulting long-term adverse impact on our business, results of operations, financial condition and cash flows.

In particular, because most of our products are manufactured in China and Vietnam, the possibility of adverse changes in trade or political relations with China or Vietnam, political instability in China or Vietnam, increases in labor costs, the occurrence of prolonged adverse weather conditions or a natural disaster such as an earthquake or typhoon in China or Vietnam, or the outbreak of a pandemic disease in China or Vietnam could severely interfere with the manufacturing and/or shipment of our products and would have a material adverse effect on our operations. Our business operations may be adversely affected by the current and future political environment in the Communist Party of China (“PRC”). The government of the PRC has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in the PRC may be adversely affected by changes in Chinese laws and regulations, including those relating to taxation, import and export tariffs, raw materials, environmental regulations, land use rights, property and other matters. Under its current leadership, the government of the PRC has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of the PRC will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice. A change in policies by the PRC government could adversely affect our interests by, among other factors: changes in laws, regulations or the interpretation thereof, confiscatory taxation, restrictions on currency conversion, imports or sources of supplies, or the expropriation or nationalization of private enterprises. In addition, electrical shortages, labor shortages or work stoppages may extend the production time necessary to produce our orders, and there may be circumstances in the future where we may have to incur premium freight charges to expedite the delivery of product to our customers. If we incur a significant amount of premium charges to airfreight product for our customers, our gross profit will be negatively affected if we are unable to collect those charges.

Many Of Our Retail Stores Depend Heavily On The Customer Traffic Generated By Shopping And Factory Outlet Malls Or By Tourism.

Many of our concept stores are located in shopping malls, and some of our factory outlet stores are located in manufacturers’ outlet malls where we depend on obtaining prominent locations and the overall success of the malls to generate customer traffic. We cannot control the success of individual malls, and an increase in store closures by other retailers may lead to mall vacancies and reduced foot traffic. Some of our concept stores occupy street locations that are heavily dependent on customer traffic generated by tourism. Any substantial decrease in tourism resulting from an economic slowdown, political, social or military events or otherwise, is likely to adversely affect sales in our existing stores, particularly those with street locations. The effects of these factors could reduce sales of particular existing stores or hinder our ability to open retail stores in new markets, which could negatively affect our operating results.

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 2018 and 2017, the top five manufacturers of our products produced approximately 41.9% and 47.5% of our total purchases, respectively. One manufacturer accounted for 12.8% and 17.9% of total purchases during 2018 and 2017, respectively. Another manufacturer accounted for 10.1% and 11.1% of our total purchases during 2018 and 2017, respectively. 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.

Our Ability To Deliver Our Products To The Market Could Be Disrupted If We Encounter Problems Affecting Our Logistics And Distribution Systems.

We rely on owned or independently operated distribution facilities to transport, warehouse and ship products to our customers. Our logistic and distribution systems include computer-controlled and automated equipment, which may be subject to a number of risks related to security or computer viruses, the proper operation of software and hardware, power interruptions or other system failures. Substantially all of our products are distributed from a few key locations. Therefore, our operations could be interrupted by earthquakes, floods, fires or other natural disasters near our distribution centers. Our business interruption insurance may not adequately protect us from the adverse effects that could be caused by significant disruptions affecting our distribution facilities, such as the long-term loss of customers or an erosion of brand image. In addition, our distribution capacity is dependent on the timely performance of services by third parties, including the transportation of products to and from our distribution facilities. If we encounter problems affecting our distribution system, our ability to meet customer expectations, manage inventory, complete sales and achieve operating efficiencies could be materially adversely affected.

Our Business Could Be Harmed If Our Contract Manufacturers, Suppliers Or Licensees Violate Labor, Trade Or Other Laws.

We require our independent contract manufacturers, suppliers and licensees to operate in compliance with applicable laws and regulations. Manufacturers are required to certify that neither convicted, forced or indentured labor (as defined under United States law) nor child labor (as defined by law in the manufacturer's country) is used in the production process, that compensation is paid in accordance with local law and that their factories are in compliance with local safety regulations. Although we promote ethical business practices and our sourcing personnel periodically visit and monitor the operations of our independent contract manufacturers, suppliers and licensees, we do not control them or their labor practices. If one of our independent contract manufacturers, suppliers or licensees violates labor or other laws or diverges from those labor practices generally accepted as ethical in the United States, it could result in adverse publicity for us, damage our reputation in the United States, or render our conduct of business in a particular foreign country undesirable or impractical, any of which could harm our business.

In addition, if we, or our foreign manufacturers, violate United States or foreign trade laws or regulations, we may be subject to extra duties, significant monetary penalties, the seizure and the forfeiture of the products we are attempting to import, or the loss of our import privileges. Possible violations of United States or foreign laws or regulations could include inadequate record-keeping of our imported products, misstatements or errors as to the origin, quota category, classification, marketing or valuation of our imported products, fraudulent visas, or labor violations. The effects of these factors could render our conduct of business in a particular country undesirable or impractical, and have a negative impact on our operating results.

Our Strategies Involve A Number Of Risks That Could Prevent Or Delay The Successful Opening Of New Stores As Well As Negatively Impact The Performance Of Our Existing Stores.

Our ability to successfully open and operate new stores depends on many factors, including, among others, our ability to identify suitable store locations, the availability of which is outside of our control; negotiate acceptable lease terms, including desired tenant improvement allowances; source sufficient levels of inventory to meet the needs of new stores; hire, train and retain store personnel; successfully integrate new stores into our existing operations; and satisfy the fashion preferences in new geographic areas.

In addition, some or a substantial number of new stores could be opened in regions of the United States in which we currently have few or no stores. Any expansion into new markets may present competitive, merchandising and distribution challenges that are different from those currently encountered in our existing markets. Any of these challenges could adversely affect our business and results of operations. In addition, to the extent that any new store openings are in existing markets, we may experience reduced net sales volumes in existing stores in those markets.

We Depend On Key Personnel To Manage Our Business Effectively In A Rapidly Changing Market, And If We Are Unable To Retain Existing Personnel, Our Business Could Be Harmed.

Our future success depends upon the continued services of Robert Greenberg, Chairman of the Board and Chief Executive Officer; Michael Greenberg, President and a member of our Board of Directors; and David Weinberg, Executive Vice President, Chief Operating Officer and a member of our Board of Directors. The loss of the services of any of these individuals or any other key employee could harm us. Our future success also depends on our ability to identify, attract and retain additional qualified personnel. Competition for employees in our industry is intense, and we may not be successful in attracting and retaining such personnel.

The Disruption, Expense And Potential Liability Associated With Existing And Unanticipated Future Litigation Against Us Could Have A Material Adverse Effect On Our Business, Results Of Operations, Financial Condition And Cash Flows.

In addition to the legal matters included in our 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 our company 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 us 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. Further, any unanticipated litigation in the future, regardless of its merits, could also significantly divert management's attention from our operations and result in substantial legal fees being incurred. Such disruptions, legal fees and any losses resulting from these unanticipated future claims could have a material adverse effect on our business or financial condition.

Our Ability To Compete Could Be Jeopardized If We Are Unable To Protect Our Intellectual Property Rights Or If We Are Sued For Intellectual Property Infringement.

We believe that our trademarks, design patents and other proprietary rights are important to our success and our competitive position. We use trademarks on nearly all of our products and believe that having distinctive marks that are readily identifiable is an important factor in creating a market for our goods, in identifying us and in distinguishing our goods from the goods of others. We consider our Skechers®, Skechers Sport®, Skechers USA®, D'Lites®, Skechers Performance™, Skechers GOrun®, Skechers GOwalk®, Hyper Burst™, You by Skechers®, ®, ®, ®, Skechers Cali®, Relaxed Fit®, Skecher Street®, Air-Cooled Memory Foam®, Skechers Memory Foam™, Skech-Air®, BOBS®, Energy Lights®, S-Lights® and Twinkle Toes® trademarks to be among our most valuable assets, and we have registered these trademarks in many countries. In addition, we own many other trademarks that we utilize in marketing our products. We also have a number of design patents and a limited number of utility patents covering components and features used in various shoes. We believe that our patents and trademarks are generally sufficient to permit us to carry on our business as presently conducted. While we vigorously protect our trademarks against infringement, we cannot guarantee that we will be able to secure patents or trademark protection for our intellectual property in the future or that protection will be adequate for future products. Further, we have been sued in the past for patent and trademark infringement and cannot be sure that our activities do not and will not infringe on the intellectual property rights of others. If we are compelled to prosecute infringing parties, defend our intellectual property or defend ourselves from intellectual property claims made by others, we may face significant expenses and liability as well as the diversion of management's attention from our business, each of which could negatively impact our business or financial condition.

In addition, the laws of foreign countries where we source and distribute our products may not protect intellectual property rights to the same extent as do the laws of the United States. We cannot assure you that the actions we have taken to establish and protect our trademarks and other intellectual property rights outside the United States will be adequate to prevent imitation of our products by others or, if necessary, successfully challenge another party's counterfeit products or products that otherwise infringe on our intellectual property rights on the basis of trademark or patent infringement. Continued sales of these products could adversely affect our sales and our brand and result in the shift of consumer preference away from our products. We may face significant expenses and liability in connection with the protection of our intellectual property rights outside the United States, and if we are

unable to successfully protect our rights or resolve intellectual property conflicts with others, our business or financial condition could be adversely affected.

Breaches Or Compromises Of Our Information Security Systems, Information Technology Systems And Our Infrastructure To Support Our Business Could Result In Exposure Of Private Information, Disruption Of Our Business And Damage To Our Reputation, Which Could Harm Our Business, Results Of Operation And Financial Condition.

As a routine part of our business, we utilize information security and information technology systems and websites that allow for the secure storage and transmission of proprietary or private information regarding our customers, employees, vendors and others. A security breach of our network, hosted service providers, or vendor systems, may expose us to a risk of loss or misuse of this information, litigation and potential liability. Hackers and data thieves are increasingly sophisticated and operate large-scale and complex automated attacks, and the retail industry, in particular, has been the target of many recent cyber-attacks. Although we take measures to safeguard this sensitive information, we may not have the resources or technical sophistication to anticipate or prevent rapidly-evolving types of cyber-attacks targeted at us, our customers, or others who have entrusted us with information. Actual or anticipated attacks may cause us to incur costs, including costs to deploy additional personnel and protection technologies, train employees, and engage third-party experts and consultants.

We invest in industry standard security technology to protect personal information. Advances in computer capabilities, new technological discoveries, or other developments may result in the technology used by us to protect against transaction or other data being breached or compromised. In addition, data and security breaches can also occur as a result of non-technical issues, including breach by us or by persons with whom we have commercial relationships that result in the unauthorized release of personal or confidential information. Although we maintain insurance designed to provide coverage for cyber risks related to what we believe to be adequate and collectible insurance in the event of theft, loss, fraudulent or unlawful use of customer, employee or company data, any compromise or breach of our cyber security systems could result in private information exposure and a violation of applicable privacy and other laws, significant potential liability including legal and financial costs, and loss of confidence in our security measures by customers, which could result in damage to our brand and have an adverse effect on our business, financial condition and reputation. In addition, we must comply with increasingly complex and rigorous regulatory standards enacted to protect business and personal data. Compliance with existing and proposed laws and regulations can be costly, and any failure to comply with these regulatory standards could subject us to legal and reputational risks. Misuse of or failure to secure personal information could also result in violation of data privacy laws and regulations, proceedings against us by governmental entities or others, damage to our reputation and credibility and could have a negative impact on revenues and profits.

Natural Disasters Or A Decline In Economic Conditions In California Could Increase Our Operating Expenses Or Adversely Affect Our Sales Revenue.

As of December 31, 2018, a substantial portion of our operations are located in California, including 99 of our retail stores, our headquarters in Manhattan Beach, and our domestic distribution center in Rancho Belago. Because a significant portion of our net sales is derived from sales in California, a decline in the economic conditions in California, whether or not such decline spreads beyond California, could materially adversely affect our business. Furthermore, a natural disaster or other catastrophic event, such as an earthquake or wild fire affecting California, could significantly disrupt our business including the operation of our only domestic distribution center. We may be more susceptible to these issues than our competitors whose operations are not as concentrated in California.

Two Principal Stockholders Are 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 December 31, 2018, our Chairman of the Board and Chief Executive Officer, Robert Greenberg, beneficially owned 77.0% of our outstanding Class B common shares, members of Mr. Greenberg's immediate family beneficially owned an additional 13.4% 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 30.6% 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 December 31, 2018, Mr. Greenberg beneficially owned 35.9% 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 45.1% of the aggregate number of votes eligible to be cast by our stockholders, and Mr. Schwartzberg beneficially owned 19.7% of the aggregate number of votes eligible to be cast by our stockholders. Therefore, Messrs. Greenberg and Schwartzberg are each able to exert significant influence over all matters requiring approval by our stockholders. Matters that require the approval of our stockholders include the election of directors and the approval of mergers or other business combination transactions. Mr. Greenberg also has significant influence over our management and

operations. As a result of such influence, certain transactions are not likely without the approval of Messrs. Greenberg and Schwartzberg, including proxy contests, tender offers, open market purchase programs or other transactions that can give our stockholders the opportunity to realize a premium over the then-prevailing market prices for their shares of our Class A common shares. Because Messrs. Greenberg's and Schwartzberg's interests may differ from the interests of the other stockholders, their ability to substantially control or significantly influence, respectively, actions requiring stockholder approval, may result in our company taking action that is not in the interests of all stockholders. The differential in the voting rights may also adversely affect the value of our Class A common shares to the extent that investors or any potential future purchaser view the superior voting rights of our Class B common shares to have value.

Our Charter Documents And Delaware Law May Inhibit A Takeover, Which May Adversely Affect The Value Of Our Stock.

Provisions of Delaware law, our certificate of incorporation or our bylaws could make it more difficult for a third party to acquire us, even if closing such a transaction would be beneficial to our stockholders. Mr. Greenberg's substantial beneficial ownership position, together with the authorization of Preferred Stock, the disparate voting rights between our Class A Common Stock and Class B Common Stock, the classification of our Board of Directors and the lack of cumulative voting in our certificate of incorporation and bylaws, may have the effect of delaying, deferring or preventing a change in control, may discourage bids for our Class A Common Stock at a premium over the market price of the Class A Common Stock and may adversely affect the market price of our Class A Common Stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters are located at several properties in or near Manhattan Beach, California, which consist of an aggregate of approximately 188,000 square feet. We own and lease portions of our corporate headquarters.

Our U.S. distribution center is a 1.8 million square-foot facility located on approximately 110 acres in Rancho Belago, California. We are leasing the distribution center from a joint venture, HF Logistics-SKX (the "JV"), that we formed with HF Logistics I, LLC ("HF") in January 2010 for the purpose of building and operating the facility. The lease for this facility expires in November 2031, with a base rent of \$940,695 per month, or approximately \$11.3 million per year. The JV is consolidated in our financial statements.

Our European Distribution Center occupies approximately 1.3 million square feet in Liege, Belgium under five operating leases, with base rents of approximately \$5.5 million per year. These leases provide for original terms of 10-15 years, commencing between January 2016 and June 2016, subject to automatic extensions for recurring periods of five years unless we or the landlord terminates the lease in writing 12 months prior to the expiration of the original lease term or 12 months prior to the end of the then applicable five-year extension.

All of our domestic retail stores and showrooms are leased with terms expiring between August 2019 and October 2033. The leases provide for rent escalations tied to either increases in the lessor's operating expenses, fluctuations in the consumer price index in the relevant geographical area, or a percentage of the store's gross sales in excess of the base annual rent. Total base rent expense related to our domestic retail stores and showrooms was \$103.6 million for the year ended December 31, 2018.

We also lease all of our international administrative offices, retail stores, showrooms and distribution facilities located in Asia, Central America, Europe, North America and South America. The property leases expire at various dates between March 2019 and March 2029. Total base rent for the leased properties aggregated approximately \$113.9 million for the year ended December 31, 2018.

ITEM 3. LEGAL PROCEEDINGS

Converse, Inc. v. Skechers U.S.A., Inc. – On October 14, 2014, Converse filed an action against our company in the United States District Court for the Eastern District of New York, Brooklyn Division, Case 1:14-cv-05977-DLI-MDG, alleging trademark infringement, false designation of origin, unfair competition, trademark dilution and deceptive practices arising out of our alleged use of certain design elements on footwear. The complaint seeks, among other things, injunctive relief, profits, actual damages, enhanced damages, punitive damages, costs and attorneys' fees. On October 14, 2014, Converse also filed a complaint naming 27 respondents including our company with the U.S. International Trade Commission (the "ITC" or "Commission"), Federal Register Doc. 2014-24890, alleging violations of federal law in the importation into and the sale within the United States of certain footwear. Converse has requested that the Commission issue a general exclusion order, or in the alternative a limited exclusion order, and cease and desist orders. On December 8, 2014, the District Court stayed the proceedings before it. On December 19, 2014, Skechers responded to the ITC complaint, denying the material allegations and asserting affirmative defenses. A trial before an administrative law judge of the ITC was held in August 2015. On November 15, 2015, the ITC judge issued his interim decision finding that certain discontinued products (Daddy's Money and HyDee HyTops) infringed on Converse's intellectual property, but that other, still active product lines (Twinkle Toes and Bobs Utopia) did not. On February 3, 2016, the ITC decided that it would review in part certain matters that were decided by the ITC judge. On June 28, 2016, the full ITC issued a ruling affirming that Skechers Twinkle Toes and Bobs canvas shoes do not infringe Converse's Chuck Taylor Midsole Trademark and affirming that Converse's common law trademark was invalid. The full ITC also invalidated Converse's registered trademark. Converse appealed this decision to the United States Court of Appeals for the Federal Circuit. On January 27, 2017, Converse filed its appellate brief but did not contest the portion of the decision that held that Skechers Twinkle Toes and Bobs canvas shoes do not infringe. On June 26, 2017, we filed our responsive brief, on February 8, 2018 the court heard oral argument, and on June 7, 2018 the Court requested supplemental briefing on certain issues. On October 30, 2018, the United States Court of Appeals for the Federal Circuit vacated the ITC's ruling and remanded the matter back to the ITC for further proceedings. 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.

Nike, Inc. v. Skechers USA, Inc. – On January 4, 2016, Nike filed an action against our company in the United States District Court for the District of Oregon, Case No. 3:16-cv-0007, alleging that certain Skechers shoe designs (Men’s Burst, Women’s Burst, Women’s Flex Appeal, Men’s Flex Advantage, Girls’ Skech Appeal, and Boys’ Flex Advantage) infringe the claims of eight design patents. Nike seeks injunctive relief, disgorgement of Skechers’ profits, damages (including treble damages), pre-judgment and post-judgment interest, attorneys’ fees, and costs. In April and May, 2016, we filed petitions with the United States Patent and Trademark Office’s Patent Trial and Appeal Board (the “PTAB”) for inter partes review of all eight design patents, seeking to invalidate those patents. In September and November 2016, the Patent Trial and Appeal Board denied each of our petitions. On January 6, 2017, we filed several additional petitions for inter partes review with the PTAB, seeking to invalidate seven of the eight designs patents that Nike is asserting. In July 2017, we were notified that the PTAB granted our petitions and instituted inter partes review proceedings with respect to two of the seven design patents but denied our petitions as to the others. In June 2017, we filed a motion to transfer venue from the District of Oregon to the Central District of California based on a recent United States Supreme Court decision and the motion was granted in late 2017. On June 28, 2018, the PTAB issued final decisions in the two inter partes review proceedings, rejecting the invalidity challenges made by our company in those proceedings. On June 4, 2018, the Court, over Nike’s opposition, granted our request for a claim construction hearing. A claim construction hearing was held on August 28, 2018 and we are currently waiting for a ruling. While it is too early to predict the outcome of the case or whether an adverse result would have a material adverse impact on our operations or financial position, we believe we have meritorious defenses and intend to defend this legal matter vigorously.

Steamfitters Local 449 Pension Plan v. Skechers USA, Inc., Robert Greenberg and David Weinberg. – On October 20, 2017, the Steamfitters Local 449 Pension Plan filed a securities class action, on behalf of itself and purportedly on behalf of other shareholders who purchased Skechers stock in a five-month period in 2015, against our company and certain of its officers in the United States District Court for the Southern District of New York, case number 1:17-cv-08107. On April 4, 2018, the plaintiffs filed an amended and consolidated complaint and on July 24, 2018 plaintiffs filed a second amended and consolidated complaint. The lawsuit alleges that, between April 23 and October 22, 2015, we made materially false statements or omissions of material fact about the anticipated performance of our Domestic Wholesale segment and asserts claims for unspecified damages, attorneys’ fees and equitable relief based on two counts for alleged violations of federal securities laws. On November 21, 2018 we filed a motion to dismiss. On January 10, 2019 plaintiffs filed an opposition and on February 11, 2019 we filed a reply. There is no date set for the hearing. Given the early stage of this proceeding and the limited information available, we cannot predict the outcome of this legal proceeding or whether an adverse result in this case would have a material adverse impact on our operations or financial position. We believe we have meritorious defenses and intend to defend this matter vigorously.

In Re Skechers Securities Litigation (formerly Laborers Local 235 Benefit Fund v. Skechers USA, Inc. Robert Greenberg, David Weinberg and John Vandemore) – On September 4, 2018, Laborers Local 235 Benefit Fund filed a securities class action on behalf of itself and purportedly on behalf of other shareholders who purchased the company’s stock between October 20, 2017 and July 19, 2018 (the “Class Period”), against our company and certain of its officers in the United States District Court for the Southern District of New York, case number 1:18-cv-8039. The complaint alleges that throughout the Class Period we made materially false statements or omissions of material fact regarding our sales growth and controlling expenses in an effort to artificially inflate the price of our stock for the personal gain of the Company’s founding family. Beginning October 17, 2018, copycat cases were filed and on January 22, 2019 a consolidated amended class action complaint was filed as *In Re Skechers Securities Litigation*. Given the early stages of these proceedings and the limited information available, we cannot predict the outcome of these legal proceedings or whether an adverse result in these cases would have a material adverse impact on our operations or financial position. We believe we have meritorious defenses and intend to defend these matters vigorously.

Kathleen Houseman v. Robert Greenberg, et al. – On November 27, 2018, the Company, the Board of Directors and CFO John Vandemore were sued by a shareholder and the Company in a derivative action in the United States District Court for the District of Delaware, Case No 1:18tc222. The complaint is based largely on the same underlying factual allegations as *In Re Skechers Securities Litigation*. By mutual agreement of the parties this case has been stayed pending the outcome of *In Re Skechers Securities Litigation*. We believe we have meritorious defenses and intend to defend this matter vigorously. Notwithstanding, given the early stages of these proceedings and the limited information available, we cannot predict the outcome of this legal proceeding or whether an adverse result in this case would have a material adverse impact on our operations or financial position.

Jesse Chen v. Robert Greenberg, et al. – On January 16, 2019, the Company, the Board of Directors and CFO John Vandemore were sued by a shareholder and the Company in a derivative action in the Superior Court for the State of California for the County of Los Angeles, Case No.19-STC-CV00393. The complaint mirrors the Houseman case, supra, and based largely on the same underlying factual allegations as *In Re Skechers Securities Litigation*. By mutual agreement of the parties this case has been stayed pending the outcome of *In Re Skechers Securities Litigation*. We believe we have meritorious defenses and intend to defend this matter vigorously. Notwithstanding, given the early stages of these proceedings and the limited information available, we cannot predict the outcome of this legal proceeding or whether an adverse result in this case would have a material adverse impact on our operations or financial position.

Yolanda Zuniga v. Team One Employment Specialists, LLC, Skechers USA, Inc., Dolores Carte et al. – On December 20, 2017, our company was named as a defendant in an action filed by a former employee named Yolanda Zuniga in the Superior Court of California, County of Riverside, Case No. RIC 1723878, alleging discrimination, harassment, retaliation, violation of the Family Medical Leave Act/California Family Rights Act, breach of contract and wrongful termination, among other causes of action, and seeking compensatory damages, punitive and exemplary damages, and attorneys’ fees. This case was stayed pending the outcome of an arbitration between the parties involving identical claims. This case has been settled and the settlement funded by a co-defendant. The settlement did not have a material adverse impact on our operations or financial position.

Ealeen Wilk v. Skechers U.S.A., Inc. – On September 10, 2018, Ealeen Wilk filed a putative class action lawsuit against our company in the United States District Court for the Central District of California, Case No. 5:18-cv-01921, alleging violations of the California Labor Code, including unpaid overtime, unpaid wages due upon termination and unfair business practices. The complaint seeks actual, compensatory, special and general damages; penalties and liquidated damages; restitutionary and injunctive relief; attorneys’ fees and costs; and interest as permitted by law. While it is too early to predict the outcome of the litigation or a reasonable range of potential losses and whether an adverse result would have a material adverse impact on our results of operations or financial position, we believe that we have meritorious defenses, vehemently deny the allegations, and intend to defend the case 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 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A Common Stock trades on the New York Stock Exchange under the symbol "SKX."

HOLDERS

As of February 1, 2019, there were 88 holders of record of our Class A Common Stock (including holders who are nominees for an undetermined number of beneficial owners) and 36 holders of record of our Class B Common Stock. These figures do not include beneficial owners who hold shares in nominee name. The Class B Common Stock is not publicly traded, but each share is convertible upon request of the holder into one share of Class A Common Stock.

DIVIDEND POLICY

Share Repurchase Program

On February 6, 2018, the Company's Board of Directors authorized a share repurchase program (the "Share Repurchase Program"), pursuant to which the Company may, from time to time, purchase shares of its Class A common stock, par value \$0.001 per share ("Class A common stock"), for an aggregate repurchase price not to exceed \$150 million. The Share Repurchase Program expires on February 6, 2021. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Act of 1934, as amended, subject to market conditions, applicable legal requirements and other relevant factors. The Share Repurchase Program does not obligate the Company to acquire any particular amount of shares of Class A common stock and the program may be suspended or discontinued at any time.

ISSUER PURCHASES OF EQUITY SECURITIES

The table below summarizes the number of shares of our Class A Common Stock that were repurchased during the three months ended December 31, 2018.

Month Ended	Total Number of Shares Purchased (1) (2)	Average Price Paid Per Share	Total Number of Shares Purchased from Certain Employees (1)	Total Number of Shares Purchased under the Share Repurchase Program (2)	Maximum Dollar Value of Shares that May Yet Be Purchased under the Program
October 31, 2018	133,945	\$ 27.25	—	133,945	\$ 88,322,000
November 30, 2018	648,935	\$ 27.95	96,200	552,735	72,964,000
December 31, 2018	976,947	\$ 23.49	513	976,434	50,023,000
Total	<u>1,759,827</u>	\$ 25.42	<u>96,713</u>	<u>1,663,114</u>	<u>\$ 50,023,000</u>

(1) *The Company repurchased 96,713 shares from certain employees to facilitate income tax withholding payments pertaining to restricted stock awards that vested during the three months ended December 31, 2018. Such shares were not repurchased pursuant to a publicly announced plan or program.*

(2) *As announced on February 6, 2018, the Board of Directors of the Company has approved a share repurchase program, authorizing the repurchase of up to an aggregate of \$150.0 million of the Company's Class A common stock. The program allows the Company to repurchase shares of Class A common stock from time to time for cash in the open market or privately negotiated transactions or other transactions, as market and business conditions warrant and subject to applicable legal requirements. The share repurchase program does not obligate the Company to repurchase any particular amount of common stock, and it could be modified, suspended or discontinued at any time.*

EQUITY COMPENSATION PLAN INFORMATION

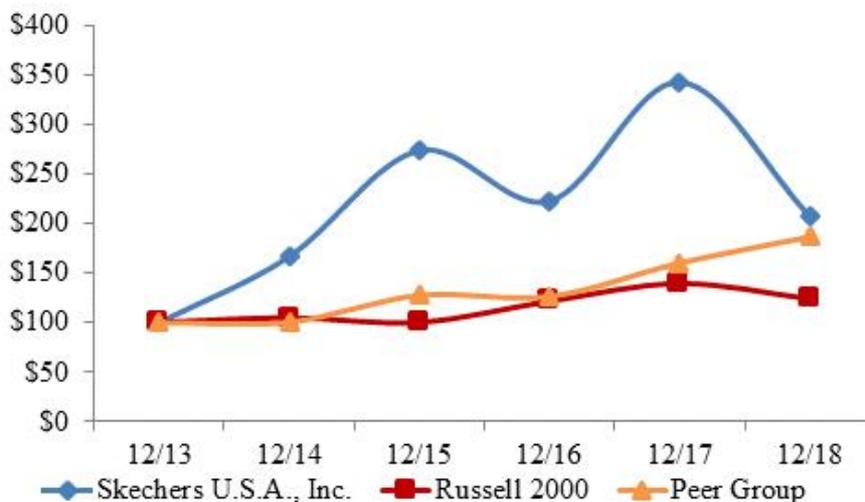
Our equity compensation plan information is provided as set forth in Part III, Item 12 of this annual report on Form 10-K.

PERFORMANCE GRAPH

The following graph demonstrates the total return to stockholders of our company’s Class A Common Stock from December 31, 2013 to December 31, 2018, relative to the performance of the Russell 2000 Index, which includes our Class A Common Stock, and the peer group index, which is believed to include companies engaged in businesses similar to ours. The peer group index consists of six companies: Nike, Inc., adidas AG, Steven Madden, Ltd., Wolverine World Wide, Inc., Crocs, Inc., and Deckers Outdoor Corporation.

The graph assumes an investment of \$100 on December 31, 2013 in each of our company’s Class A Common Stock and the stocks comprising each of the Russell 2000 Index and the customized peer group index. Each of the indices assumes that all dividends were reinvested. The stock performance of our company’s Class A Common Stock shown on the graph is not necessarily indicative of future performance. We will neither make nor endorse any predictions as to our future stock performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURNS



(in dollars)	12/13	12/14	12/15	12/16	12/17	12/18
Skechers U.S.A., Inc.	100.00	166.77	273.56	222.58	342.65	207.27
Russell 2000	100.00	104.89	100.26	121.63	139.44	124.09
Peer Group	100.00	100.49	127.51	126.31	160.09	186.43

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth our company's selected consolidated financial data as of and for each of the years in the five-year period ended December 31, 2018 and should be read in conjunction with our audited consolidated financial statements and notes thereto included under Part II, Item 8 of this annual report.

(In thousands, except net earnings per share)

Statement of Earnings Data:	Years Ended December 31,				
	2018	2017	2016	2015	2014
Net sales	\$ 4,642,068	\$ 4,164,160	\$ 3,563,311	\$ 3,147,323	\$ 2,377,561
Gross profit	2,223,605	1,938,889	1,634,596	1,424,008	1,071,905
Earnings from operations	437,765	382,880	370,518	350,824	209,071
Earnings before income taxes	431,884	384,260	359,484	333,497	191,380
Net earnings attributable to Skechers U.S.A., Inc.	301,041	179,190	243,493	231,912	138,811
Net earnings per share: ⁽¹⁾					
Basic	1.93	1.15	1.58	1.52	0.91
Diluted	1.92	1.14	1.57	1.50	0.91
Weighted average shares: ⁽¹⁾					
Basic	155,815	155,651	154,169	152,847	151,839
Diluted	156,450	156,523	155,084	154,200	153,079

Balance Sheet Data:	As of December 31,				
	2018	2017	2016	2015	2014
Working capital	\$ 1,621,918	\$ 1,507,676	\$ 1,206,036	\$ 971,179	\$ 779,277
Total assets	3,228,255	2,735,082	2,393,670	2,039,878	1,674,918
Long-term borrowings, excluding current installments	88,119	71,103	67,159	68,942	15,081
Skechers U.S.A., Inc. equity	2,034,958	1,829,064	1,603,633	1,327,556	1,075,249

- (1) *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, reflects the potential dilution that could occur if options to issue common stock were exercised or converted into common stock. All share and per share information has been retroactively adjusted for the three-for-one stock split that was effective on October 16, 2015.*

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

We design, market and sell contemporary footwear for men, women and children under the Skechers brand. Our footwear is sold through a wide range of department stores and leading specialty retail stores, mid-tier retailers, boutiques, our own retail stores, distributor and licensee-owned international retail stores and our e-commerce websites. Our objective is to continue to profitably grow our domestic operations while leveraging our brand name to expand internationally.

Our operations are organized along our distribution channels, and we have the following three reportable sales segments: domestic wholesale sales, international wholesale sales, which include international direct subsidiary sales and international distributor sales, and retail sales, which includes our e-commerce sales. We evaluate segment performance based primarily on net sales and gross margins. See detailed segment information in Note 19 – Segment and Geographic Reporting in our Consolidated Financial Statements included under Part II, Item 8 of this annual report.

FINANCIAL OVERVIEW

Our net sales for 2018 increased \$477.9 million, or 11.5%, to \$4.642 billion, compared to net sales of \$4.164 billion in 2017. The increase in net sales primarily came from our international subsidiaries and retail businesses. Our international wholesale and international retail businesses represented 54.2% of our net sales during 2018. The largest increases in our domestic wholesale segment came in our Work, BOBS, Men's U.S.A., Cali, and You divisions. During 2018, earnings from operations increased \$54.9 million, or 14.3%, to \$437.8 million compared to \$382.9 million in 2017. Net earnings attributable to Skechers U.S.A., Inc. were \$301.0 million for 2018, an increase of \$121.8 million, or 68.0%, compared to net earnings of \$179.2 million in 2017. Diluted earnings per share for 2018 were \$1.92, which reflected a 68.4% increase from the \$1.14 diluted earnings per share reported in the prior year. Our working capital was \$1.622 billion at December 31, 2018, which was an increase of \$114.2 million from working capital of \$1.508 billion at December 31, 2017. Our cash and cash equivalents increased \$135.8 million to \$872.2 million at December 31, 2018 from \$736.4 million at December 31, 2017. The increase in cash and cash equivalents was primarily the result of our increased net earnings and accounts payable which were partially offset by decreased accounts receivable, increased capital investments, increased investment and share repurchases.

2018 OVERVIEW

In 2018, we focused on product development, growing our position in our domestic wholesale accounts, growing our international market share, opening retail stores in key locations worldwide, continuing to develop our global infrastructure, and balance sheet and expense management.

New product design and delivery. In 2018, we focused on fresh updates to our core and existing styles—including Skechers GO Walk Joy, adding collaborations with accessible characters such as Garfield and Grumpy Cat as well as the more niche but still successful anime series One Piece, and broadening our reach to more trend-focused men and women through our heritage Skechers D'Lites collection.

Grow our domestic business. In 2018, our focus was on returning to growth domestically in our domestic wholesale accounts by delivering the right product to accounts at the right time, while finding new opportunities to add shelf space and expand into new locations with new Skechers categories. In 2018, we remained the number one walking, work, casual lifestyle, and casual dress footwear brand, and the number two casual athletic footwear brand.

Further develop our international businesses. During 2018, we continued to focus on improving our international sales by increasing our product offering to accounts around the world, delivering the right product to accounts at the right time, and increasing our shelf space with new and updated products as well as increasing our customer base.

Expand Skechers global retail base. Believing that Skechers retail stores are effective brand building tools, we continued to focus on opening Skechers stores around the world—both company-owned and third-party owned through our distributors, franchisees or joint venture partners. In 2018, we opened 25 additional company-owned domestic stores and 26 additional company-owned international stores. Additionally, we continued to expand our franchise retail base with more Skechers branded stores in countries where we directly handle the distribution of our product.

Develop our global infrastructure. In 2018, through our joint-venture in China we purchased land to construct our new China distribution center to support our sales in the region. We completed designing the building, tenant improvements and equipment for this facility and began construction in the fourth quarter of 2018.

Balance sheet and expense management. During 2018, we continued to focus on managing our balance sheet and bringing our marketing expenses and general and administrative expenses in line with expected sales. During 2018, we returned \$100.0 million to shareholders by repurchasing 3.7 million Class A shares.

OUTLOOK FOR 2019

During 2019, we will continue to innovate our lifestyle and performance product lines by developing new styles and expanding into new categories. This includes building on our heritage collection and chunky footwear offering with Skechers D'Lites, Skechers D'Lites 3.0, Skechers Stamina, and Skechers Energy, among others. The global footwear market is competitive; however, we believe demand for the brand globally will remain strong because our products are marketed at affordable prices and our styles resonate with consumers worldwide. We believe appeal for our product is broad and demand will continue to grow due to a team of brand ambassadors—including sports icons Tony Romo, David Ortiz, Sugar Ray Leonard and Howie Long for men; pop superstar Camila Cabello for women; elite athlete Meb Keflezighi; and professional golfers Matt Kuchar and Brooke Henderson. We expect to continue to broaden the targeted demographic profile of our consumer base, increase our shelf space and to open another 70 to 80 company-owned retail locations worldwide. In addition, we will continue the construction of our new 1.62 million square foot distribution center in China to support our business in the region—with an expected completion date of 2020, and on the expansion of our corporate headquarters. In 2019, we entered into an agreement to purchase the minority interest in our India joint venture that we did not own for \$82.5 million which will make our India joint venture a wholly owned subsidiary. In 2019, we also agreed in principle to form a joint venture with our distributor in Mexico.

DEFINITIONS

Comparable sales

As part of our discussion of our results of operations, we disclose comparable store sales, for which we typically include the impact of e-commerce sales on our company-owned websites. With respect to any reporting period, we define comparable store sales as sales for stores that are owned and operated for at least thirteen full calendar months as of the last day of any calendar month within the current reporting period, and include only those sales for each of the comparable full calendar months that the store is open within each period. When a store closes at the end of a lease during a reporting period, we include in comparable store sales the sales for the number of comparable full calendar months that the store was open within the reporting period. We include new stores in comparable store sales commencing with the fourteenth month of operations because we believe it provides a more meaningful comparison of operating results of months with stabilized operations, and excludes a new store's first full calendar month of operations when operating results may not be representative for a variety of reasons.

Definitions and calculations of comparable store sales differ among companies in the retail industry, and therefore comparable store sales disclosed by us may not be comparable to the metrics disclosed by other companies.

Cost of sales or Gross margins

Our cost of sales includes the cost of footwear purchased from our manufacturers, duties, quota costs, inbound freight (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 consist primarily of the following: sales representative sample costs, sales commissions, trade shows, advertising and promotional costs, which may include television and ad production costs, and point-of-purchase costs.

General and administrative expenses

General and administrative expenses consist primarily of the following: salaries, wages and related taxes, various overhead costs associated with our corporate staff, stock-based compensation, domestic and international retail operations, non-selling related costs of our international operations, costs and expenses related to our distribution network for our Rancho Belago, European and other foreign distribution centers, professional fees related to both legal and accounting services, insurance, depreciation and amortization, asset impairment and legal settlements, among other expenses. Our distribution network-related costs are included in general and administrative expenses and are not allocated to specific segments.

Net sales

Net sales for 2018 were \$4.642 billion, which was an increase of \$477.9 million, or 11.5%, compared to net sales of \$4.164 billion for 2017. The increase in net sales primarily came from our international wholesale and retail businesses.

Our domestic wholesale net sales increased \$10.3 million, or 0.8%, to \$1.260 billion for 2018 compared to \$1.250 billion for 2017. The increase in our domestic wholesale segment's net sales was primarily the result of a 3.0% unit sales volume increase, to 58.1 million pairs in 2018 from 56.5 million pairs in 2017, which was partially offset by a decrease in average selling price per pair of 3.8%, to \$21.26 per pair for 2018 from \$22.11 in 2017. This net sales increase was attributable to higher sales in our Work, BOBS, Men's U.S.A., Cali, and You divisions during 2018. The average selling price per pair decrease within the domestic wholesale segment was primarily the result of product sales mix.

Our international wholesale segment net sales increased \$324.9 million, or 18.8%, to \$2.055 billion for 2018 compared to sales of \$1.730 billion for 2017. Our international wholesale sales consist of direct sales by our foreign subsidiaries – those sales 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 sales by our foreign subsidiaries, including our joint ventures, increased \$322.2 million, or 23.0%, to \$1.722 billion for 2018 compared to sales of \$1.399 billion for 2017. The largest sales increases during the year came from our subsidiaries in the United Kingdom, Germany and Spain, and our joint ventures in China, India and Singapore. The increases are primarily attributable to sales of our Men's and Women's Sport, YOU, BOBS, and Men's U.S.A., lines. Our distributor sales increased \$2.7 million, or 0.8%, to \$333.3 million for 2018, compared to sales of \$330.6 million for 2017. This was primarily attributable to increased sales to our distributors in Russia, Indonesia and Turkey.

Our retail segment sales increased \$142.7 million to \$1.328 billion for the year ended December 31, 2018, a 12.0% increase over sales of \$1.185 billion for 2017. The increase in retail sales was primarily attributable to increased comparable sales of 9.2%, which included increased sales within our Men's and Women's Sport, Men's U.S.A., Kid's, and Work divisions and a net increase of 25 domestic and 26 international stores compared to 2017. For the year ended December 31, 2018, our domestic retail sales, which includes e-commerce, increased 7.7% compared to 2017, which was primarily attributable to increased domestic store count and to positive comparable domestic store sales of 6.4%, and our international retail store sales increased 21.2% compared to 2017, which was attributable to increased international store count and positive comparable international store sales of 15.5%.

We believe that we have established our presence in most major domestic retail markets. We had 470 domestic stores and 222 international retail stores as of February 15, 2019, and we currently plan to open approximately 70 to 80 stores in 2019. During 2018, we opened one new domestic concept store, one domestic factory outlet store, 23 domestic warehouse outlet stores, 14 international concept stores, 11 international factory outlet stores, and one international warehouse outlet store. During 2018, we closed four domestic concept stores. We periodically review all of our stores for impairment. During 2018 and 2017, we did not record an impairment charge related to our retail stores.

Gross profit

Gross profit for 2018 increased \$284.6 million, or 14.7% to \$2.224 billion from \$1.939 billion for 2017. Gross profit, as a percentage of net sales, or gross margin, increased slightly to 47.9% in 2018 from 46.6% for 2017. Our domestic wholesale segment gross profit increased \$3.7 million, or 0.8%, to \$468.3 million for 2018 from \$464.6 million for 2017, which was attributable to an increase in pairs sold of 3.0%. Domestic wholesale gross margins were 37.2% for 2018 and 2017.

Gross profit for our international wholesale segment increased \$190.0 million, or 24.2%, to \$976.7 million for 2018 compared to \$786.7 million for 2017. Gross margins for the international wholesale segment were 47.5% for 2018 compared to 45.5% for 2017. Gross margins for our international direct subsidiary sales, including our joint ventures, were 51.7% for 2018 as compared to 50.0% for 2017. The increase in gross margins for our international wholesale segment and international direct subsidiary sales were primarily attributable to an increased mix of sales of products with higher gross margins. Gross margins for our international distributor sales were 25.9% for 2018 as compared to 26.3% for 2017.

Gross profit for our retail segment increased \$90.9 million, or 13.2%, to \$778.5 million for 2018 as compared to \$687.6 million for 2017. Gross margins for all stores were 58.6% for 2018 compared to 58.0% for 2017. Gross margins for our domestic stores were 61.3% for 2018 as compared to 59.7% for 2017. Gross margins for our international stores were 53.6% for 2018 as compared to 54.5% for 2017. The increase in our domestic retail margins were attributable to higher average selling prices and lower average product costs.

Selling expenses

Selling expenses increased by \$23.2 million, or 7.1%, to \$350.4 million for 2018 from \$327.2 million for 2017. As a percentage of net sales, selling expenses were 7.5% and 7.9% for 2018 and 2017, respectively. The increase in selling expenses was primarily the result of higher advertising expense of \$17.6 million and increased sales commissions of \$3.9 million due to increased sales worldwide.

General and administrative expenses

General and administrative expenses increased by \$211.0 million, or 16.9%, to \$1.456 billion for 2018 from \$1.245 billion for 2017. As a percentage of sales, general and administrative expenses were 31.4% and 29.9% for 2018 and 2017, respectively. The increase in general and administrative expenses was primarily attributable to \$99.9 million related to supporting our growing international operations in China, Japan, South Korea and Latin America, increased store operating costs of \$52.7 million primarily attributable to an additional net 47 stores and increased domestic wholesale general and administrative expenses of \$57.8 million primarily due to increased distribution costs of \$30.0 million. In addition, expenses related to our distribution network, including the functions of purchasing, receiving, inspecting, allocating, warehousing and packaging of our products were \$249.6 million for 2018 compared to \$219.6 million for 2017.

Other income (expense)

Interest income was \$10.1 million for 2018 compared to \$2.4 million for 2017. The increase in interest income was primarily due to increased interest rates and higher average cash and investment balances as compared to the prior year. Interest expense for 2018 decreased \$0.9 million to \$5.8 million compared to \$6.7 million in 2017. Interest expense decreased primarily due to reduced interest paid to our foreign manufacturers. Loss on foreign currency transactions for 2018 was \$9.2 million compared to a \$6.3 million gain in 2017. This increased foreign currency exchange loss was primarily attributable to the impact of a stronger U.S. dollar on our intercompany balances in our foreign subsidiaries. Loss on disposal of assets for 2018 decreased \$0.1 million to a loss of \$0.5 million as compared to a loss of \$0.6 million in 2017.

Income taxes

Our provision for income tax expense and our effective income tax rate are significantly impacted by the mix of our domestic and foreign earnings (loss) before income taxes. In the non-U.S. jurisdictions in which we have operations, the applicable statutory rates are generally significantly lower than in the U.S., ranging from 0% to 34.6%. Our provision for income tax expense was calculated using the applicable statutory income tax rate for each jurisdiction applied to our pre-tax earnings (loss) in each jurisdiction, while our effective tax rate is calculated by dividing income tax expense by earnings (loss) before income taxes.

Our earnings (loss) before income taxes and income tax expense for 2018, 2017 and 2016 are as follows (in thousands):

<u>Income tax jurisdiction</u>	<u>Years Ended December 31,</u>					
	<u>2018</u>		<u>2017</u>		<u>2016</u>	
	<u>Earnings (loss) before income taxes</u>	<u>Income tax expense (benefit)</u>	<u>Earnings (loss) before income taxes</u>	<u>Income tax expense</u>	<u>Earnings (loss) before income taxes</u>	<u>Income tax expense</u>
United States (1)	\$ 16,597	\$ 11,500	\$ 25,628	\$ 113,607	\$ 105,589	\$ 44,654
Peoples Republic of China ("China")	89,429	19,595	95,668	12,971	72,584	11,720
Hong Kong	48,352	8,106	17,778	5,030	15,156	5,206
Jersey (2)	213,327	—	198,048	—	146,880	—
Non-benefited loss operations (3)	(11,422)	(3,387)	(17,350)	3,306	(16,189)	12
Other jurisdictions (4)	75,601	24,797	64,488	14,242	35,464	12,533
Earnings before income taxes	<u>\$ 431,884</u>	<u>\$ 60,611</u>	<u>\$ 384,260</u>	<u>\$ 149,156</u>	<u>\$ 359,484</u>	<u>\$ 74,125</u>
Effective tax rate (5)		14.0%		38.8%		20.6%

(1) United States income tax expense for 2017 includes a provisional one-time \$99.9 million tax expense related to the enactment of the Tax Act on December 22, 2017.

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

(3) Consists of entities in the following tax jurisdictions where no tax benefit is recognized in the period being reported because of the provision of offsetting valuation allowances: Barbados, Brazil, China, India, Israel, Japan, Panama, Romania, Thailand, and South Korea.

- (4) *Consists of entities in the following tax jurisdictions, each of which comprises not more than 5% of consolidated earnings (loss) before taxes in the period being reported: Albania, Austria, Belgium, Bosnia & Herzegovina, Canada, Chile, Colombia, Costa Rica, France, Germany, Hungary, India, Italy, Kosovo, Macau, Macedonia, Malaysia, Montenegro, Netherlands, Panama, Peru, Poland, Portugal, Serbia, Singapore, Spain, Switzerland, Vietnam, and the United Kingdom.*
- (5) *The effective tax rate is calculated by dividing income tax expense by earnings before income taxes.*

For 2018, the effective tax rate was lower than the U.S. federal and state combined statutory rate of approximately 26%, primarily because of earnings from foreign operations in jurisdictions imposing either lower tax rates on corporate earnings or no corporate income tax. During 2018, as reflected in the table above, earnings (loss) before income taxes in the U.S. were \$16.6 million, with income tax expense of \$11.5 million, which is an average rate of 69.3%. This rate is higher than the 26% U.S. statutory rate primarily due to the impact of U.S. non-deductible expenses. Earnings (loss) before income taxes in non-U.S. jurisdictions were \$415.3 million, with an aggregate income tax expense of \$49.1 million, which is an average rate of 11.8%. Combined, this results in consolidated earnings before income taxes for the period of \$431.9 million, and consolidated income tax expense for the period of \$60.6 million, resulting in an effective tax rate of 14.0%. For 2018, of our \$415.3 million in earnings before income tax earned outside the U.S., \$213.3 million was earned in Jersey, which does not impose a tax on corporate earnings. In Jersey, earnings before income taxes increased by \$15.3 million to \$213.3 million in 2018 from \$198.0 million in 2017. This increase was primarily attributable to an increase in international sales which resulted in an increase in earnings before income taxes in Jersey from royalties and commissions under the terms of our inter-subsidiary agreements. In addition, there were foreign losses of \$11.2 million for which no tax benefit was recognized during the year ended December 31, 2018, because of the provision of offsetting valuation allowances, but for which \$3.4 million in prior year tax refund were received. Individually, none of the other foreign jurisdictions included in "Other jurisdictions" in the table above had earnings greater than 5% of our consolidated earnings (loss) before taxes in any of the years shown.

As of December 31, 2018, we had approximately \$872.2 million in cash and cash equivalents, of which \$522.2 million, or 59.9%, was outside the U.S. Of the \$522.2 million held by our non-U.S. subsidiaries, approximately \$276.9 million is available for repatriation to the U.S. without incurring U.S. income taxes and applicable non-U.S. income and withholding taxes in excess of the amounts accrued in our consolidated financial statements as of December 31, 2018.

We believe our cash and cash equivalents and investments held in the U.S. and cash provided from operations are sufficient to meet our liquidity needs in the U.S. for the next twelve months, and we do not expect to repatriate any of the funds presently designated as indefinitely reinvested outside the U.S. However, in anticipation of the needs of our share repurchase program and the need to provide payment of our provisional Transition Tax liability, we plan to begin the repatriation of certain funds held outside the U.S. for which tax has been fully provided as of December 31, 2018. We have provided for the tax impact of expected distributions from our joint venture in China as well as from our subsidiary in Chile to our intermediate parent company in Switzerland. Otherwise, because of the need for cash for operating capital and continued overseas expansion, we do not foresee the need for any of our other foreign subsidiaries to distribute funds up to an intermediate foreign parent company in any form of taxable dividend. Under current applicable tax laws, if we chose to repatriate some or all of the funds we have designated as indefinitely reinvested outside the U.S., the amount repatriated would not be subject to U.S. income taxes but may be subject to applicable non-U.S. income and withholding taxes, and to certain state income taxes.

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

Net earnings attributable to non-controlling interest for 2018 increased \$14.3 million to \$70.2 million as compared to \$55.9 million for 2017 due to increased profitability of our joint ventures. Non-controlling interest represents the share of net earnings or loss that is attributable to our joint venture partners.

YEAR ENDED DECEMBER 31, 2017 COMPARED TO THE YEAR ENDED DECEMBER 31, 2016

Net sales

Net sales for 2017 were \$4.164 billion, which was an increase of \$600.9 million, or 16.9%, compared to net sales of \$3.563 billion for 2016. The increase in net sales was broad based across all our segments with the largest increases coming from our international businesses.

Our domestic wholesale net sales increased \$49.5 million, or 4.1%, to \$1.249 billion for 2017 compared to \$1.200 billion for 2016. The increase in our domestic wholesale segment's net sales was primarily the result of a 7.8% unit sales volume increase to 56.5 million pairs in 2017 from 52.4 million pairs in 2016, which was partially offset by a decrease in average selling price per pair of 3.4%, to \$22.11 per pair for 2017 from \$22.89 in 2016. This net sales increase was attributable to higher sales in our Men's Sport, Men's U.S.A., Cali, You, and Kid's divisions during 2017. The average selling price per pair decrease within the domestic wholesale segment was primarily the result of product sales mix with lower average selling prices.

Our international wholesale segment net sales increased \$338.7 million, or 24.3%, to \$1.730 billion for 2017 compared to sales of \$1.391 billion for 2016. Direct sales by our foreign subsidiaries, including our joint ventures, increased \$311.3 million, or 28.6%, to \$1.399 billion for 2017 compared to sales of \$1.088 billion for 2016. The largest sales increases during the year came from our subsidiaries in the United Kingdom, Germany and Spain, and our joint ventures in China and Korea. The increases are primarily attributable to sales of our Women's and Men's Go, Women's Active and Men's and Women's Sport lines. Our distributor sales increased \$27.4 million, or 9.0%, to \$330.6 million for 2017, compared to sales of \$303.2 million for 2016. This was primarily attributable to increased sales to our distributors in Australia and New Zealand, Indonesia, and Turkey.

Our retail segment sales increased \$212.8 million to \$1.185 billion for the year ended December 31, 2017, a 21.9% increase over sales of \$972.2 million for 2016. The increase in retail sales was primarily attributable to increased comparable sales of 7.2%, which included increased sales within our Men's and Women's Sport, Men's U.S.A., Kid's, and Work divisions and a net increase of 36 domestic and 39 international stores compared to 2016. For the year ended December 31, 2017, our domestic retail sales, which includes e-commerce, increased 11.9% compared to 2016, which was primarily attributable to increased domestic store count and to positive comparable domestic store sales of 6.4%, and our international retail store sales increased 50.3% compared to 2016, which was attributable to increased international store count and positive comparable international store sales of 10.1%.

During 2017, we opened five new domestic concept stores, seven domestic factory outlet stores, 29 domestic warehouse outlet stores, 19 international concept stores, 16 international factory outlet stores, and four international warehouse outlet stores. During 2017, we closed five domestic concept stores. We periodically review all of our stores for impairment. During 2017 and 2016, we did not record an impairment charge related to our retail stores.

Gross profit

Gross profit for 2017 increased \$304.3 million, or 18.6% to \$1.939 billion from \$1.635 billion for 2016. Gross profit, as a percentage of net sales, or gross margin, increased slightly to 46.6% in 2017 from 45.9% for 2016. Our domestic wholesale segment gross profit increased \$10.5 million, or 2.3%, to \$464.6 million for 2017 from \$454.1 million for 2016, which was attributable to an increase in pairs sold of 7.8%. Domestic wholesale margins decreased to 37.2% for 2017 from 37.8% for 2016. The decrease in domestic wholesale margins was primarily attributable to a product sales mix with lower average selling prices.

Gross profit for our international wholesale segment increased \$170.6 million, or 27.7%, to \$786.7 million for 2017 compared to \$616.1 million for 2016. Gross margins for the international wholesale segment were 45.5% for 2017 compared to 44.3% for 2016. Gross margins for our international direct subsidiary sales, including our joint ventures, were 50.0% for 2017 as compared to 49.3% for 2016. The increase in gross margins for our international wholesale segment and international direct subsidiary sales were primarily attributable to sales of products with higher average selling prices. Gross margins for our international distributor sales were 26.3% for 2017 as compared to 26.2% for 2016.

Gross profit for our retail segment increased \$123.2 million, or 21.8%, to \$687.6 million for 2017 as compared to \$564.4 million for 2016. Gross margins for all stores were 58.0% for 2017 compared to 58.1% for 2016. Gross margins for our domestic stores were 59.7% for 2017 as compared to 60.1% for 2016. Gross margins for our international stores were 54.5% for 2017 as compared to 52.3% for 2016. The decrease in our domestic retail margins were attributable to a product sales mix with lower average selling prices.

Selling expenses

Selling expenses increased by \$70.1 million, or 27.3%, to \$327.2 million for 2017 from \$257.1 million for 2016. As a percentage of net sales, selling expenses were 7.9% and 7.2% for 2017 and 2016, respectively. The increase in selling expenses was primarily the result of increased sales commissions of \$22.7 million due to increased sales worldwide and \$13.2 million from our South Korean joint-venture and \$47.3 million in higher advertising expenses, which slightly increased as a percentage of net sales to 5.8% in 2017 from 5.5% in 2016.

General and administrative expenses

General and administrative expenses increased by \$224.7 million, or 22.0%, to \$1.245 billion for 2017 from \$1.021 billion for 2016. As a percentage of sales, general and administrative expenses were 29.9% and 28.6% for 2017 and 2016, respectively. The increase in general and administrative expenses was primarily attributable to \$109.5 million related to supporting our growing international operations in China, Japan, South Korea and Latin America, increased store operating costs of \$73.8 million primarily attributable to an additional 75 stores and increased domestic wholesale general and administrative expenses of \$41.4 million primarily due to increased headcount in the United States to support our brand worldwide. In addition, expenses related to our distribution network, including the functions of purchasing, receiving, inspecting, allocating, warehousing and packaging of our products increased \$32.3 million, due to increased shipments, to \$219.6 million from \$187.3 million for 2017 and 2016, respectively.

Other income (expense)

Interest income was \$2.4 million for 2017 compared to \$1.2 million for 2016. Interest expense for 2017 increased \$0.4 million to \$6.7 million compared to \$6.3 million in 2016. Gain or loss on foreign currency transactions for 2017 increased \$11.3 million to a gain of \$6.3 million compared to a \$5.0 million loss in 2016. This increased foreign currency exchange gain was primarily attributable to the impact of a weaker U.S. dollar on our intercompany balances in our foreign subsidiaries. Loss on disposal of assets for 2017 decreased \$0.5 million to a loss of \$0.6 million as compared to a loss of \$1.1 million in 2016.

Income taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code that affected our financial results for the year ended December 31, 2017, including, but not limited to: (1) requiring a one-time Transition Tax, payable over eight years, on certain unrepatriated earnings of foreign subsidiaries; (2) a future reduction of the U.S. federal corporate tax rate from 35% to 21% that affects the current value of our deferred tax assets ("DTAs") and deferred tax liabilities ("DTLs"); and (3) bonus depreciation that allows for full expensing of qualified property placed in service after September 27, 2017. In addition, the Tax Act establishes new tax laws that will affect our financial results for the year ending December 31, 2018, including, but not limited to: (1) a reduction of the U.S. federal corporate tax rate from 35% to 21%; (2) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (3) a new provision designed to tax global intangible low-taxed income ("GILTI"); (4) limitations on the deductibility of certain executive compensation; and (5) limitations on the use of Foreign Tax Credit ("FTC's") to reduce the U.S. income tax liability.

The SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for us to complete the accounting under Accounting Standards Codification 740 ("ASC 740"). In accordance with SAB 118, we must reflect the income tax effects of those aspects of the Act for which the accounting under ASC 740 is complete. To the extent that our accounting for certain income tax effects of the Tax Act is incomplete but we are able to determine a reasonable estimate, we must record a provisional estimate in the financial statements. If we cannot determine a provisional estimate to be included in the financial statements, we should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

In connection with our initial analysis of the impact of the Tax Act, we have recorded a provisional one-time net tax expense of \$99.9 million for the year-ended December 31, 2017. This net tax expense primarily consists of the \$1.9 million net tax impact to our DTA's from the corporate rate reduction and a net expense for the Transition Tax of \$98.0 million. For various reasons that are discussed more fully below, we did not completed our accounting for the income tax effects of certain elements of the Tax Act. If we were able to make reasonable estimates of the effects of elements for which our analysis was not yet complete, we recorded provisional adjustments.

Our accounting for the following elements of the Tax Act was provisional. However, we were able to make reasonable estimates of certain effects and, therefore, recorded the following provisional adjustments:

Transition Tax: The Transition Tax is a one-time tax on previously untaxed current and accumulated earnings and profits ("E&P") of certain of our foreign subsidiaries. To determine the amount of the Transition Tax, we must determine, in addition to other factors, the amount of post-1986 E&P of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. We were able to make a reasonable estimate of the Transition Tax and recorded a provisional Transition Tax liability of \$98.0 million at December 31, 2017. However, during the measurement period, we continued to gather additional information to more precisely compute the amount of the Transition Tax. As a result of the additional information gathered, we reduced the provisional estimate from \$98.0 million to \$87.1 million and recorded a \$10.9 million adjustment to reduce the tax provision for the year ended December 31, 2018.

Reduction of U.S. federal corporate tax rate: The Tax Act reduces the corporate tax rate from 35% to 21%, effective January 1, 2018. As a result, we have recorded a provisional decrease in value of our net DTAs of \$1.9 million, with a corresponding net adjustment to deferred income tax expense of \$1.9 million for the year ended December 31, 2017. No additional adjustment to this provisional estimate of the impact of the Tax Act on our net DTA's was necessary, and no related adjustment was recorded in the tax provision for the year ended December 31, 2018.

Cost recovery: We completed provisional computations for expenditures that qualified for immediate expensing and recorded a decrease in our current income tax payable of approximately \$5.9 million based on our estimates related to the additional federal expense allowed as a result of the Tax Act. In addition, we have recorded a corresponding increase in our DTLs of approximately \$3.5 million, which is less than the \$5.9 million liability amount due to the reduction in the corporate tax rate from 35% to 21%, effective January 1, 2018. The \$2.4 million net benefit from the reduction in the future tax rate is included in the \$1.9 million decrease in value of the net DTAs discussed above. No additional adjustment to this provisional estimate of the impact of the Tax Act on our cost recovery was necessary, and no related adjustment was recorded in the tax provision for the year ended December 31, 2018.

Our provision for income tax expense and our effective income tax rate are significantly impacted by the mix of our domestic and foreign earnings (loss) before income taxes. In the non-U.S. jurisdictions in which we have operations, the applicable statutory rates are generally significantly lower than in the U.S., ranging from 0% to 34%. Our provision for income tax expense was calculated using the applicable statutory income tax rate for each jurisdiction applied to our pre-tax earnings (loss) in each jurisdiction, while our effective tax rate is calculated by dividing income tax expense by earnings (loss) before income taxes.

Our earnings (loss) before income taxes and income tax expense for 2017, 2016 and 2015 are as follows (in thousands):

Income tax jurisdiction	Years Ended December 31,					
	2017		2016		2015	
	Earnings (loss) before income taxes	Income tax expense	Earnings (loss) before income taxes	Income tax expense	Earnings (loss) before income taxes	Income tax expense
United States (1)	\$ 25,628	\$ 113,607	\$ 105,589	\$ 44,654	\$ 136,726	\$ 52,173
Peoples Republic of China (“China”)	95,668	12,971	72,584	11,720	49,027	11,084
Jersey (2)	198,048	—	146,880	—	123,721	—
Non-benefited loss operations (3)	(17,350)	3,306	(16,189)	12	(16,719)	164
Other jurisdictions (4)	82,266	19,272	50,620	17,739	40,742	9,029
Earnings before income taxes	<u>\$ 384,260</u>	<u>\$ 149,156</u>	<u>\$ 359,484</u>	<u>\$ 74,125</u>	<u>\$ 333,497</u>	<u>\$ 72,450</u>
Effective tax rate (5)		38.8%		20.6%		21.7%

(1) United States income tax expense for 2017 includes a provisional one-time \$99.9 million tax expense related to the enactment of the Tax Act on December 22, 2017.

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

(3) Consists of entities in the following tax jurisdictions where no tax benefit is recognized in the period being reported because of the provision of offsetting valuation allowances: Brazil, India, Israel, Japan, Macau, Panama, and South Korea.

(4) Consists of entities in the following tax jurisdictions, each of which comprises not more than 5% of consolidated earnings (loss) before taxes in the period being reported: Albania, Austria, Belgium, Bosnia & Herzegovina, Canada, Chile, Colombia, Costa Rica, France, Germany, Hong Kong, Hungary, India, Italy, Kosovo, Macedonia, Malaysia, Montenegro, Netherlands, Panama, Peru, Poland, Portugal, Romania, Serbia, Singapore, Spain, Switzerland, Thailand, Vietnam, and the United Kingdom.

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

For 2017, the effective tax rate was lower than the U.S. federal and state combined statutory rate of approximately 39%, primarily because of earnings from foreign operations in jurisdictions imposing either lower tax rates on corporate earnings or no corporate income tax. During 2017, as reflected in the table above, earnings (loss) before income taxes in the U.S. were \$25.6 million, with income tax expense of \$113.6 million, which is an average rate of 443%. The U.S. tax expense includes a provisional one-time tax expense of \$99.9 million related to the enactment of the Tax Act on December 22, 2017. Earnings (loss) before income taxes in non-U.S. jurisdictions were \$358.6 million, with an aggregate income tax expense of \$35.5 million, which is an average rate of 9.9%. Combined, this results in consolidated earnings before income taxes for the period of \$384.3 million, and consolidated income tax expense for the period of \$149.2 million, resulting in an effective tax rate of 38.8%. For 2017, of our \$358.6 million in earnings before income tax earned outside the U.S., \$198.0 million was earned in Jersey, which does not impose a tax on corporate earnings. In Jersey, earnings before income taxes increased by \$51.1 million, or 35%, to \$198.0 million in 2017 from \$146.9 million in 2016. This increase was primarily attributable to an increase of \$435.6 million in net sales in the “Other international” geographic area for 2017 (see Note 18 – Segment and Geographic Reporting in our consolidated financial statements included under Part II, Item 8 of this annual report), which resulted in a significant increase in earnings before income taxes in Jersey from royalties and commissions under the terms of inter-subsidiary agreements. Due to the scalability of our operations, increases in net sales in the “Other international” geographic area from 2016 to 2017 resulted in a disproportionately greater increase in earnings before income taxes in Jersey. In addition, there were foreign losses of \$17.4 million for which no tax benefit was recognized during the year ended December 31, 2017 because of the provision of offsetting valuation allowances, but in which \$3.3 million in nonrefundable and other withholding taxes were paid. Individually, none of the other foreign jurisdictions included in “Other jurisdictions” in the table above had earnings greater than 5% of our consolidated earnings (loss) before taxes in any of the years shown.

As of December 31, 2017, we had approximately \$736.4 million in cash and cash equivalents, of which \$391.6 million, or 53.2%, was held outside the U.S. Of the \$391.6 million held by our non-U.S. subsidiaries, approximately \$227.5 million is available for repatriation to the U.S. without incurring U.S. income taxes and applicable non-U.S. income and withholding taxes in excess of the amounts accrued in our consolidated financial statements as of December 31, 2017. As of December 31, 2017, U.S. income taxes have been provided but non-U.S. income taxes have not been provided on cumulative total earnings of \$178.8 million. As of December 31, 2016, U.S. and non-U.S. income taxes have not been provided on cumulative total earnings of \$699.6 million.

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

Net earnings attributable to non-controlling interest for 2017 increased \$14.0 million to \$55.9 million as compared to \$41.9 million for 2016 due to increased profitability of our joint ventures. Non-controlling interest represents the share of net earnings or loss that is attributable to our joint venture partners.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Our working capital at December 31, 2018 was \$1.622 billion, an increase of \$114.2 million from working capital of \$1.508 billion at December 31, 2017. Our cash and cash equivalents at December 31, 2018 was \$872.2 million, compared to \$736.4 million at December 31, 2017. This increase in cash and cash equivalents of \$135.8 million, after consideration of the effect of exchange rates, was the result of our net earnings of \$371.3 million, and increased accrued expenses and other long-term liabilities of \$19.7 million, which was partially offset by increased receivables of \$136.2 million, capital expenditures of \$143.0 million and share repurchases of \$100.0 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

Net cash provided by operating activities was \$568.6 million for 2018 and \$159.3 million for 2017. On a comparative year-to-year basis, the \$409.3 million increase in cash flows from operating activities in 2018 primarily resulted from \$187.1 million increase in accounts payable, a smaller increase in inventories of \$151.4 million, which were partially offset by a larger increase in accounts receivable of \$34.0 million and a smaller increase in accrued expenses and other long-term liabilities of \$66.4 million.

Investing Activities

Net cash used in investing activities was \$319.4 million for 2018, as compared to \$138.3 million in 2017. The increase in cash used in investing activities in 2018 as compared to 2017 was due to a net increase in investment purchases of \$176.4 million and increased capital expenditures of \$7.1 million. Capital expenditures for 2018 were approximately \$143.0 million, which primarily consisted of \$50.0 million for new store openings and remodels, \$28.8 million for the construction for our China distribution center, \$20.6 million to support our international wholesale operations, \$17.6 million for the upgrades to our domestic distribution center, and \$10.5 million for new retail locations in our China joint venture. This compares to capital expenditures of \$136.0 million in the prior year, which primarily consisted of \$68.5 million for new store openings and remodels, \$19.9 million for land for our China distribution center, \$15.4 million to support our international wholesale operations and \$12.0 million for new retail locations in our China joint venture. We expect capital expenditures for 2019 to be between \$275.0 million and \$300.0 million, which includes the construction of our China distribution center, upgrades for our domestic and European distribution centers, opening 70 to 80 retail stores, store remodels, corporate office and information technology upgrades. We believe our current cash, investments, operating cash flows, available lines of credit and current financing arrangements should be adequate to fund these capital expenditures, although we may seek additional funding for all or a portion of these expenditures.

Financing Activities

Net cash used in financing activities was \$119.7 million during 2018, compared \$14.5 million during 2017. The increase in cash used by financing activities was primarily attributable to repurchases of our Class A common stock of \$100.0 million and increased payments for taxes related to net share settlement of equity awards of \$14.2 million.

Capital Resources and Prospective Capital Requirements

Share Repurchase Program

On February 6, 2018, the Company's Board of Directors authorized a share repurchase program (the "Share Repurchase Program"), pursuant to which the Company may, from time to time, purchase shares of its Class A common stock, par value \$0.001 per share ("Class A common stock"), for an aggregate repurchase price not to exceed \$150.0 million. The Share Repurchase Program expires on February 6, 2021. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Act of 1934, as amended, subject to market conditions, applicable legal requirements and other relevant factors. The Share Repurchase Program does not obligate the Company to acquire any particular amount of shares of Class A common stock and the program may be suspended or discontinued at any time. As of December 31, 2018, there was \$50.0 million available under the Share Repurchase Program.

Acquisitions

In 2019, we entered into an agreement to purchase the minority interest in our India joint venture that we did not own for \$82.5 million which will make our India joint venture a wholly owned subsidiary. Also, in 2019, we agreed in principle to form a joint venture with our distributor in Mexico.

Financing Arrangements

On October 24, 2018, through our Chinese joint venture, we entered into a \$17.5 million loan agreement with The Hongkong and Shanghai Banking Corporation Limited (the “China Loan Agreement”). The China Loan Agreement allows for partial drawdown. Interest will be paid at one, two or three months, depending on the period of the drawdown. The interest rate will be based upon the London Interbank Offered Rate (“LIBOR”) plus 1.2% per annum. As specified in the China Loan Agreement, the principal of the loan will be repayable by fifteen equal quarterly installments of \$437,550, commencing fifteen months after drawdown plus a final installment of \$10,937,500. The loan has a term of 5 years. The China Loan Agreement contains customary affirmative and negative covenants for secured credit facilities of this type. The obligations of our Chinese joint venture under the China Loan Agreement are jointly and severally guaranteed by the Company and Luen Thai Enterprises Ltd. There was no amount outstanding as of December 31, 2018.

On October 19, 2018, through a subsidiary of our Chinese joint venture (“the TC Subsidiary”), we entered into a 50 million yuan revolving loan agreement with China Construction Bank Corporation (“the China DC Revolving Loan Agreement”). The proceeds from the China DC Revolving Loan Agreement will be used to finance the construction and operation of our distribution center in China. Interest will be paid quarterly. The interest rate will be based upon the prime rate from the People’s Bank of China less a discount. As specified in the China DC Revolving Loan Agreement, the entire principal balance of the loan will be repaid when the China DC Revolving Loan Agreement matures on October 18, 2019. The TC Subsidiary has the option to extend the China DC Revolving Agreement, conditioned upon the satisfaction of certain terms. The China DC Revolving Loan Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that will limit the ability of the TC Subsidiary, to among other things, allow external investment to be added, pledge assets, issue debt with priority over the China DC Revolving Loan Agreement, and adjust the capital stock structure of the TC Subsidiary. The obligations of the TC Subsidiary under the China DC Revolving Loan Agreement are jointly and severally guaranteed by our Chinese joint venture. There is no amount outstanding as of December 31, 2018.

On September 29, 2018, through the TC subsidiary, we entered into a 700 million yuan loan agreement with China Construction Bank Corporation (“the China DC Loan Agreement”). The proceeds from the China DC Loan Agreement will be used to finance the construction of our distribution center in China. Interest will be paid quarterly. The interest rate will float and be calculated at a reference rate provided by the People’s Bank of China. The interest rate at December 31, 2018 was 4.28% and may increase or decrease over the life of the loan, and will be evaluated every 12 months. The principal of the loan will be repaid in semi-annual installments, beginning in 2021, of variable amounts as specified in the China DC Loan Agreement. The China DC Loan Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that limit the ability of the joint venture to, among other things, allow external investment to be added, pledge assets, issue debt with priority over the China DC Loan Agreement, and adjust the capital stock structure of the TC Subsidiary. The China DC Loan Agreement matures on September 28, 2023. The obligations of the TC Subsidiary under the China DC Loan Agreement are jointly and severally guaranteed by our Chinese joint venture. As of December 31, 2018 there was \$18.6 million outstanding under this credit facility, which is classified as long-term borrowings in our consolidated balance sheets.

On September 20, 2018, through two subsidiaries of our Chinese joint venture (the “SGZ and SSH Subsidiaries”), we entered into a 125 million yuan revolving loan agreement with HSBC Bank (China) Company Limited, Guangzhou Branch (the “Revolving Loan Agreement”). The Revolving Loan Agreement is comprised of two tranches: a 125 million yuan revolving loan facility and a 15 million yuan non-financial bank guarantee facility. The proceeds from the Revolving Loan Agreement will be used to finance the SGZ and SSH Subsidiaries’ working capital requirements. Interest will be paid at one, two or three months, depending on the term of each loan. The interest rate will be equal to 100% of the applicable People’s Bank of China (PBOC) Benchmark Lending Rate, provided that if the PBOC Benchmark Lending Rate changes during the term of a loan, the applicable interest rate for that loan will not change until the next rollover date of that loan (if any). The Revolving Loan Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that limit the ability of the joint venture to, among other things, allow external investment to be added, pledge assets and issue debt with priority over the Revolving Loan Agreement. The term of each loan will be one, three or six months or such other period as agreed by the lender. The term of a loan, including any extension or rollover, shall not exceed twelve months. The obligations of the Subsidiary under the Revolving Loan Agreement are guaranteed by the Company, Luen Thai Enterprises Ltd., Skechers Guangzhou Co., Ltd and Skechers Trading (Shanghai) Co Ltd. There was no amount outstanding as of December 31, 2018.

On June 30, 2015, we entered into a \$250.0 million loan and security agreement, subject to increase by up to \$100.0 million, (the "Credit Agreement"), with the following lenders: Bank of America, N.A., MUFG Union Bank, N.A. and HSBC Bank USA, National Association. The Credit Agreement matures on June 30, 2020. The Credit Agreement replaces the credit agreement dated June 30, 2009, which expired on June 30, 2015. The Credit Agreement permits us and certain of our subsidiaries to borrow based on a percentage of eligible accounts receivable plus the sum of (a) the lesser of (i) a percentage of eligible inventory to be sold at wholesale and (ii) a percentage of net orderly liquidation value of eligible inventory to be sold at wholesale, plus (b) the lesser of (i) a percentage of the value of eligible inventory to be sold at retail and (ii) a percentage of net orderly liquidation value of eligible inventory to be sold at retail, plus (c) the lesser of (i) a percentage of the value of eligible in-transit inventory and (ii) a percentage of the net orderly liquidation value of eligible in-transit inventory. Borrowings bear interest at our election based on (a) LIBOR or (b) the greater of (i) the Prime Rate, (ii) the Federal Funds Rate plus 0.5% and (iii) LIBOR for a 30-day period plus 1.0%, in each case, plus an applicable margin based on the average daily principal balance of revolving loans available under the Credit Agreement. We pay a monthly unused line of credit fee of 0.25%, payable on the first day of each month in arrears, which is based on the average daily principal balance of outstanding revolving loans and undrawn amounts of letters of credit outstanding during such month. The Credit Agreement further provides for a limit on the issuance of letters of credit to a maximum of \$100.0 million. The Credit Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that will limit the ability of the Company and its subsidiaries to, among other things, incur debt, grant liens, make certain acquisitions, dispose 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 December 31, 2018, there was \$0.1 million outstanding under this credit facility, which is classified as short-term borrowings in our consolidated balance sheets.

On April 30, 2010, 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 consolidated statements of equity within non-controlling interests. The Amended Loan Agreement and the Swap Agreement are subject to customary covenants and events of default. Bank of America, N.A. also acts as a lender and syndication agent under our credit agreement dated June 30, 2015. We had \$65.1 million outstanding under the Amended Loan Agreement, which is included in long-term borrowings as of December 31, 2018.

As of December 31, 2018, outstanding short-term and long-term borrowings were \$97.0 million, of which \$65.4 million relates to loans for our domestic distribution center and the remaining relates to our international operations. Our long-term debt obligations contain both financial and non-financial covenants, including cross-default provisions. We were in compliance with all debt covenants related to our short-term and long-term borrowings as of the date of this annual report.

We believe that anticipated cash flows from operations, available borrowings under our credit agreement, existing cash and investments 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 March 31, 2020. 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 number and timing of new store openings, the success of our international operations, costs associated with constructing our China distribution center and distribution center equipment, the costs of upgrading our domestic and European distribution centers, the amount and timing of share repurchases, 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, costs associated with constructing new corporate offices, and any potential acquisitions of other brands or companies. 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.

DISCLOSURE ABOUT CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes our material contractual obligations and commercial commitments as of December 31, 2018 (In thousands):

	Total	Less than One Year	One to Three Years	Three to Five Years	More Than Five Years
Short-term borrowings	\$ 7,222	\$ 7,222	\$ —	\$ —	\$ —
Long-term borrowings (1)	96,364	5,097	87,707	3,560	—
Operating lease obligations (2)	1,641,384	251,711	432,695	360,077	596,901
Purchase obligations (3)	1,071,537	1,071,537	—	—	—
Warehouse and equipment (4)	220,200	159,800	60,400	—	—
Corporate construction contracts (5)	134,500	61,700	72,800	—	—
Minimum payments related to other arrangements	51,777	18,921	32,856	—	—
Total (6)	<u>\$ 3,222,984</u>	<u>\$ 1,575,988</u>	<u>\$ 686,458</u>	<u>\$ 363,637</u>	<u>\$ 596,901</u>

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

(2) Operating lease obligations consists primarily of real property leases for our retail stores, corporate offices, European and other international distribution centers. These leases frequently include options that permit us to extend beyond the terms of the initial fixed term. We currently expect to fund these commitments with cash flows from operations and existing cash and investment balances.

(3) Purchase obligations include the following: (i) accounts payable balances for the purchase of footwear of \$180.5 million, (ii) outstanding letters of credit of \$3.2 million and (iii) open purchase commitments with our foreign manufacturers for \$887.9 million. We currently expect to fund these commitments with cash flows from operations and existing cash and investment balances.

(4) Amounts include warehouse and equipment upgrades for our China, Rancho Belago, and European distribution centers.

(5) During 2018, we entered into construction agreements with McCarthy Construction Company for the construction of additional corporate facilities in Manhattan Beach, California.

(6) Our consolidated balance sheet, as of December 31, 2018, included \$8.0 million in unrecognized tax benefits. Future payments related to these unrecognized tax benefits have not been presented in the table above, due to the uncertainty of the amounts, the potential timing of cash settlements with the tax authorities, and uncertainty whether any settlement would occur. In addition, the table above does not include payments of \$79.8 million over the next seven years related to the provisional one-time tax liability recorded due to the Tax Act.

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 that would have been established for the purpose of facilitating off-balance-sheet arrangements or for other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements, which have been prepared in accordance with 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 and judgments on historical experience, other available information, and on other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for judgments about the carrying values of assets and liabilities. In determining whether an estimate is critical, we consider whether the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment or the susceptibility of such matters to change, and whether the impact of the estimates and assumptions have a material impact on our financial condition or operating performance. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting estimates are affected by significant judgments used in the preparation of our consolidated financial statements: revenue recognition, allowance for bad debts, returns, sales allowances and customer chargebacks, inventory write-downs, valuation of intangibles and long-lived assets, litigation reserves, and tax estimates and valuation of deferred income taxes.

Revenue Recognition. We derive income from the sale of footwear and royalties earned from licensing the Skechers brand. We recognize revenue when control of the promised goods or services is transferred to its customers in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. For North America, goods are shipped Free on Board ("FOB") shipping point directly from our domestic distribution center in Rancho Belago, California. For international wholesale customers product is shipped FOB shipping point, (i) direct from our distribution center in Liege, Belgium, (ii) to third-party distribution centers in Central America, South America and Asia, (iii) directly from third-party manufacturers to our other international customers. For our distributor sales, the goods are generally delivered directly from the independent factories to third-party distribution centers or to our distributors' freight forwarders on a Free Named Carrier ("FCA") basis. We recognize revenue on wholesale sales upon shipment as that is when the customer obtains control of the promised goods. Related costs paid to third-party shipping companies are recorded as cost of sales and are accounted for as a fulfillment cost and not as a separate performance obligation. We generate retail revenues primarily from the sale of footwear to customers at retail locations or through our websites. For our in-store sales, we recognize revenue at the point of sale. For sales made through our websites, we recognize revenue upon shipment to the customer which is when the customer obtains control of the promised good. Sales and value added taxes collected from e-commerce or retail customers are excluded from reported revenues.

We record accounts receivable at the time of shipment when the Company's right to the consideration becomes unconditional. We typically extend credit terms to our wholesale customers based on their creditworthiness and generally we do not receive advance payments. Generally, wholesale customers do not have the right to return goods, however, we periodically decide to accept returns or provide customers with credits. Allowances for estimated returns, discounts, doubtful accounts and chargebacks are provided for when related revenue is recorded. Retail and e-commerce sales generally represent amounts due from credit card companies and are generally collected within a few days of the purchase. As such, we have determined that no allowance for doubtful accounts for retail and e-commerce sales is necessary.

We earn royalty income from its licensing arrangements which qualify as symbolic licenses rather than functional licenses. Upon signing a new licensing agreement, we receive up-front fees, which are generally characterized as prepaid royalties. These fees are initially deferred and recognized as revenue is earned (i.e., as licensed sales are reported to us or on a straight-line basis over the term of the agreement). The first calculated royalty payment is based on actual sales of the licensed product or, in some cases, minimum royalty payments. We calculate and accrue estimated royalties based on the agreement terms and correspondence with the licensees regarding actual sales.

Judgments

We considered several factors in determining that control transfers to the customer upon shipment of products. These factors include that legal title transfers to the customer, we have a present right to payment, and the customer has assumed the risks and rewards of ownership at the time of shipment. We accrue a liability for product returns at the time of sale based on our historical experience. We also accrue amounts for goods expected to be returned in salable condition. As of December 31, 2018 and December 31, 2017, the Company's sales returns liability totaled \$67.3 million and \$43.4 million, respectively, and was included in accrued expenses and accounts receivable in the consolidated balance sheets, respectively.

Allowance for bad debts, returns, sales allowances and customer chargebacks. We provide a reserve against our receivables for estimated losses that may result from our customers' inability to pay. To minimize the likelihood of uncollectibility, customers' credit-worthiness is reviewed and adjusted periodically in accordance with external credit reporting services, financial statements issued by the customer and our experience with the account. When a customer's account becomes significantly past due, we generally place a hold on the account and discontinue further shipments to that customer, minimizing further risk of loss. We determine the amount of the reserve by analyzing known uncollectible accounts, aged receivables, economic conditions in the customers' countries or industries, historical losses and our customers' credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged or written off against this reserve. Allowance for returns, sales allowances and customer chargebacks are recorded against revenue. Allowances for bad debts are recorded to general and administrative expenses. Retail and e-commerce receivables represent amounts due from credit card companies and are generally collected within a few days of the purchase. As such we have determined that no allowance for doubtful accounts is necessary.

We also reserve for potential disputed amounts or chargebacks from our customers. Our chargeback reserve is based on a collectability percentage based on factors such as historical trends, current economic conditions, and nature of the chargeback receivables. We also reserve for potential sales returns and allowances based on historical trends.

The likelihood of a material loss on an uncollectible account would be mainly dependent on deterioration in the overall economic conditions in a particular country or region. Reserves are fully provided for all probable losses of this nature. For receivables that are not specifically identified as high risk, we provide a reserve based upon our historical loss rate as a percentage of sales. Gross trade accounts receivable were \$527.5 million and \$457.1 million, and the allowance for bad debts, returns, sales allowances and customer chargebacks were \$74.1 million and \$51.2 million, at December 31, 2018 and 2017, respectively. Our credit losses charged to expense for the years ended December 31, 2018, 2017, and 2016 were \$15.5 million, \$12.8 million, and \$12.7 million, respectively. In addition, we recorded sales return and allowance expense for the years ended December 31, 2018, 2017 and 2016 of \$20.2 million, \$5.6 million, and \$18.1 million, respectively.

Inventory write-downs. Inventories are stated at the lower of cost or market. We continually review our inventory for excess and slow-moving inventory. Our review is based on inventory on hand, prior sales and expected net realizable value. Our analysis includes a review of inventory quantities on hand at period-end in relation to year-to-date sales, existing orders from customers and projections for sales in the foreseeable future. The net realizable value, or market value, is determined based on our estimate of sales prices of such inventory based on historical sales experience on a style-by-style basis. A write-down of inventory is considered permanent, and creates a new cost basis for those units. The likelihood of any material inventory write-down depends primarily on our expectation of future consumer demand for our product. A misinterpretation or misunderstanding of future consumer demand for our product or of the economy, or other failure to estimate correctly, could result in inventory valuation changes, either favorably or unfavorably, compared to the requirement determined to be appropriate as of the balance sheet date. Our gross inventory value was \$876.0 million and \$881.8 million, and our inventory reserve was \$12.8 million and \$8.8 million, at December 31, 2018 and 2017, respectively.

Valuation of intangibles and long-lived assets. When circumstances warrant, we test for recoverability of the asset groups' carrying value using estimates of undiscounted future cash flows based on the existing service potential of the applicable asset group in determining the fair value of each asset group. We evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount based on our assessment of the following events or changes in circumstances:

- macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets;
- industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics, or a change in the market for an entity's products or services, or a regulatory or political development;
- cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows;
- overall financial performance such as negative or declining cash flows, or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods;

- other relevant entity-specific events such as changes in management, key personnel, strategy, customers, contemplation of bankruptcy, or litigation;
- events affecting a reporting unit such as a change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing all, or a portion, of a reporting unit, the testing for recoverability of a significant asset group within a reporting unit, or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit; and
- a sustained decrease in share price.

If the assets are considered to be impaired, the impairment we recognize is the amount by which the carrying value of the assets exceeds the fair value of the assets. We base the useful lives and related amortization or depreciation expense on our estimate of the period that the assets will generate revenues or otherwise be used by us. We review all of our stores for impairment annually or more frequently if events or changes in circumstances require it. We prepare a summary of cash flows for each of our retail stores, to assess potential impairment of the fixed assets and leasehold improvements. Stores with negative cash flows which have been open in excess of twenty-four months are then reviewed in detail to determine whether impairment exists. Management reviews both quantitative and qualitative factors to assess whether a triggering event occurred. For the years ended December 31, 2018, 2017 and 2016, respectively we did not record an impairment charge.

Litigation reserves. Estimated amounts for claims that are probable and can be reasonably estimated are recorded as liabilities in our consolidated financial statements. The likelihood of a material change in these estimated reserves would depend on additional information or new claims as they may arise as well as the favorable or unfavorable outcome of the particular litigation. Both the likelihood and amount (or range of loss) on a large portion of our remaining pending litigation is uncertain. As such, we are unable to make a reasonable estimate of the liability that could result from unfavorable outcomes in our remaining pending litigation. As additional information becomes available, we will assess the potential liability related to our pending litigation and revise our estimates. Such revisions in our estimates of potential liability could materially impact our results of operations and financial position.

Tax estimates and valuation of deferred income taxes. We record a valuation allowance when necessary to reduce our deferred tax assets to the amount that is more likely than not to be realized. The likelihood of a material change in our expected realization of our deferred tax assets depends on future taxable income and the effectiveness of our tax planning strategies amongst the various domestic and international tax jurisdictions in which we operate. We evaluate our projections of taxable income to determine the recoverability of our deferred tax assets and the need for a valuation allowance. As of December 31, 2018, we had a total deferred tax assets of \$69.2 million which was reduced by a valuation allowance of \$30.2 million and resulted in a net deferred tax assets of \$39.0 million primarily related to loss carry-forwards not expected to be utilized by certain foreign subsidiaries.

On December 22, 2017, the SEC staff issued SAB 118 to address the accounting implications of the 2017 Tax Act. SAB 118 permits a company to recognize provisional amounts for the one-time tax effects of the Tax Act upon enactment when it does not have the necessary information available, prepared or analyzed in reasonable detail to complete its accounting for the change in tax law. The measurement period to finalize our calculations cannot extend beyond one year of the enactment date. Key provisions that have a significant impact on our consolidated financial statements and where we have recognized estimated amounts include the recognition of a tax liability for a one-time Transition Tax on the accumulated earnings of our foreign subsidiaries, and the remeasurement of certain net deferred tax assets and liabilities as a result of the decrease in the U.S. corporate tax rate from 35% to 21%.

Due to the Transition Tax on the accumulated earnings of our foreign subsidiaries, previously unremitted earnings for which no U.S. deferred tax liability had been provided have now been subject to U.S. tax. While we have provided U.S. tax on all our unremitted foreign earnings, we have not provided for additional taxes which may arise upon repatriation of those amounts of unremitted foreign earnings which we believe are indefinitely reinvested outside the U.S.

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

We receive U.S. dollars for substantially all of our domestic and a portion of our international product sales, as well as our royalty income. Inventory purchases from offshore contract manufacturers are primarily denominated in U.S. dollars. However, 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. During 2018 and 2017, exchange rate fluctuations did not have a material impact on our inventory costs. We do not engage in hedging activities with respect to such exchange rate risk.

RECENT ACCOUNTING PRONOUNCEMENTS

Refer to Note 1 — The Company and Summary of Significant Accounting Policies in the accompanying Notes to the Consolidated Financial Statements for recently adopted and recently issued accounting standards.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest rate fluctuations. As of December 31, 2018, we have \$7.2 million and \$83.8 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 \$0.2 million for the year ended December 31, 2018. 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 2019. The interest rate charged on our domestic secured line of credit facility is based on the prime rate of interest, our domestic distribution center loan is based on the one month LIBOR and our China DC Loan is based on a reference rate provided by the People's Bank of China. Changes in these interest rates will have an effect on the interest charged on outstanding balances. As of December 31, 2018, there was \$0.1 million outstanding under this credit facility, \$65.1 million outstanding on our domestic distribution center loan and \$18.6 million on our China DC Loan.

We have entered into derivative financial instruments such as interest rate swaps in order to mitigate our interest rate risk on our long-term debt. We will not enter into derivative transactions for speculative purposes. We had one derivative instrument in place as of December 31, 2018 to hedge the cash flows on our \$65.1 million variable rate debt on our domestic distribution center. This instrument was a variable to fixed derivative with a notional amount of \$65.1 million at December 31, 2018. 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, the Middle East, North America, and South America. Our investments in foreign subsidiaries and joint ventures with a functional currency other than the U.S. dollar are generally considered long-term. Accordingly, we do not hedge these net investments. The fluctuation of foreign currencies resulted in a cumulative foreign currency translation loss of \$16.7 million and a cumulative foreign currency translation gain of \$11.9 million for the years ended December 31, 2018 and 2017, 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 December 31, 2018 would have reduced the values of our net investments by approximately \$31.3 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Skechers U.S.A., Inc.
Manhattan Beach, California

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Skechers U.S.A., Inc. (the “Company”) and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of earnings, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and schedule (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated March 1, 2019 expressed an unqualified opinion thereon.

Change in Accounting Method Related to Revenue

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for revenue during the year ended December 31, 2018 due to the adoption of the Accounting Standards Codification 606, “*Revenue from Contracts with Customers*.”

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company’s auditor since 2013.

Los Angeles, California
March 1, 2019

SKECHERS U.S.A., INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except par values)

	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 872,237	\$ 736,431
Short-term investments	100,029	—
Trade accounts receivable, less allowances of \$25,616 in 2018 and \$51,180 in 2017	501,913	405,921
Other receivables	55,683	27,083
Total receivables	557,596	433,004
Inventories	863,260	873,016
Prepaid expenses and other current assets	79,018	62,573
Total current assets	2,472,140	2,105,024
Property, plant and equipment, net	585,457	541,601
Deferred tax assets	39,431	29,922
Long-term investments	93,745	17,396
Other assets, net	37,482	41,139
Total non-current assets	756,115	630,058
TOTAL ASSETS	\$ 3,228,255	\$ 2,735,082
LIABILITIES AND EQUITY		
Current liabilities:		
Current installments of long-term borrowings	\$ 1,666	\$ 1,801
Short-term borrowings	7,222	8,011
Accounts payable	679,553	505,334
Accrued expenses	161,781	82,202
Total current liabilities	850,222	597,348
Long-term borrowings, excluding current installments	88,119	71,103
Deferred tax liabilities	451	161
Other long-term liabilities	100,188	118,259
Total non-current liabilities	188,758	189,523
Total liabilities	1,038,980	786,871
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; 129,525 and 131,784 shares issued and outstanding at December 31, 2018 and December 31, 2017, respectively	129	132
Class B common stock, \$0.001 par value; 75,000 shares authorized; 23,983 and 24,545 shares issued and outstanding at December 31, 2018 and December 31, 2017, respectively	24	24
Additional paid-in capital	375,017	453,417
Accumulated other comprehensive loss	(31,488)	(14,744)
Retained earnings	1,691,276	1,390,235
Skechers U.S.A., Inc. equity	2,034,958	1,829,064
Non-controlling interests	154,317	119,147
Total stockholders' equity	2,189,275	1,948,211
TOTAL LIABILITIES AND EQUITY	\$ 3,228,255	\$ 2,735,082

See accompanying notes to consolidated financial statements.

SKECHERS U.S.A., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands, except per share data)

	Years Ended December 31,		
	2018	2017	2016
Net sales	\$ 4,642,068	\$ 4,164,160	\$ 3,563,311
Cost of sales	2,418,463	2,225,271	1,928,715
Gross profit	2,223,605	1,938,889	1,634,596
Royalty income	20,582	16,666	13,885
	<u>2,244,187</u>	<u>1,955,555</u>	<u>1,648,481</u>
Operating expenses:			
Selling	350,435	327,201	257,129
General and administrative	1,455,987	1,245,474	1,020,834
	<u>1,806,422</u>	<u>1,572,675</u>	<u>1,277,963</u>
Earnings from operations	437,765	382,880	370,518
Other income (expense):			
Interest income	10,128	2,420	1,186
Interest expense	(5,847)	(6,677)	(6,270)
Other, net	(10,162)	5,637	(5,950)
Total other income (expense)	<u>(5,881)</u>	<u>1,380</u>	<u>(11,034)</u>
Earnings before income tax expense	431,884	384,260	359,484
Income tax expense	60,611	149,156	74,125
Net earnings	371,273	235,104	285,359
Less: Net earnings attributable to non-controlling interests	70,232	55,914	41,866
Net earnings attributable to Skechers U.S.A., Inc.	<u>\$ 301,041</u>	<u>\$ 179,190</u>	<u>\$ 243,493</u>
Net earnings per share attributable to Skechers U.S.A., Inc.:			
Basic	<u>\$ 1.93</u>	<u>\$ 1.15</u>	<u>\$ 1.58</u>
Diluted	<u>\$ 1.92</u>	<u>\$ 1.14</u>	<u>\$ 1.57</u>
Weighted average shares used in calculating net earnings per share attributable to Skechers U.S.A, Inc.:			
Basic	<u>155,815</u>	<u>155,651</u>	<u>154,169</u>
Diluted	<u>156,450</u>	<u>156,523</u>	<u>155,084</u>

See accompanying notes to consolidated financial statements.

SKECHERS U.S.A., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Years Ended December 31,		
	2018	2017	2016
Net earnings	\$ 371,273	\$ 235,104	\$ 285,359
Other comprehensive income:			
Gain (loss) on foreign currency translation adjustment	(24,806)	19,119	(4,698)
Comprehensive income	346,467	254,223	280,661
Less: Comprehensive income attributable to noncontrolling interests	62,170	63,173	37,467
Comprehensive income attributable to Skechers U.S.A., Inc.	<u>\$ 284,297</u>	<u>\$ 191,050</u>	<u>\$ 243,194</u>

See accompanying notes to consolidated financial statements.

SKECHERS U.S.A., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(In thousands)

	SHARES		AMOUNT		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED		SKECHERS U.S.A., INC. EQUITY	NON CONTROLLING INTERESTS	TOTAL STOCKHOLDERS' EQUITY
	CLASS A COMMON STOCK	CLASS B COMMON STOCK	CLASS A COMMON STOCK	CLASS B COMMON STOCK		OTHER COMPREHENSIVE INCOME (LOSS)	RETAINED EARNINGS			
Balance at January 1, 2016	127,324	26,278	\$ 127	\$ 26	\$ 386,156	\$ (26,305)	\$ 967,552	\$ 1,327,556	\$ 48,178	\$ 1,375,734
Net earnings	—	—	—	—	—	—	243,493	243,493	41,866	285,359
Foreign currency translation adjustment	—	—	—	—	—	(299)	—	(299)	(4,399)	(4,698)
Contribution from noncontrolling interest of consolidated entity	—	—	—	—	—	—	—	—	13,980	13,980
Distribution to noncontrolling interest of consolidated entity	—	—	—	—	—	—	—	—	(17,744)	(17,744)
Stock compensation expense	—	—	—	—	23,081	—	—	23,081	—	23,081
Proceeds from issuance of common stock under the employee stock purchase plan	221	—	—	—	5,120	—	—	5,120	—	5,120
Shares issued under the Incentive Award Plan	1,108	—	1	—	(1)	—	—	—	—	—
Tax benefit of stock options exercised	—	—	—	—	4,682	—	—	4,682	—	4,682
Conversion of Class B Common Stock into Class A Common Stock	1,733	(1,733)	2	(2)	—	—	—	—	—	—
Balance at December 31, 2016	130,386	24,545	\$ 130	\$ 24	\$ 419,038	\$ (26,604)	\$ 1,211,045	\$ 1,603,633	\$ 81,881	\$ 1,685,514
Net earnings	—	—	—	—	—	—	179,190	179,190	55,914	235,104
Foreign currency translation adjustment	—	—	—	—	—	11,860	—	11,860	7,259	19,119
Contribution from noncontrolling interest of consolidated entity	—	—	—	—	—	—	—	—	46	46
Distribution to noncontrolling interest of consolidated entity	—	—	—	—	—	—	—	—	(25,953)	(25,953)
Stock compensation expense	—	—	—	—	28,902	—	—	28,902	—	28,902
Proceeds from issuance of common stock under the employee stock purchase plan	240	—	—	—	5,479	—	—	5,479	—	5,479
Shares issued under the Incentive Award Plan	1,158	—	2	—	(2)	—	—	—	—	—
Balance at December 31, 2017	131,784	24,545	\$ 132	\$ 24	\$ 453,417	\$ (14,744)	\$ 1,390,235	\$ 1,829,064	\$ 119,147	\$ 1,948,211
Net earnings	—	—	—	—	—	—	301,041	301,041	70,232	371,273
Foreign currency translation adjustment	—	—	—	—	—	(16,744)	—	(16,744)	(8,062)	(24,806)
Distribution to noncontrolling interest of consolidated entity	—	—	—	—	—	—	—	—	(27,000)	(27,000)
Stock compensation expense	—	—	—	—	30,468	—	—	30,468	—	30,468
Proceeds from issuance of common stock under the employee stock purchase plan	222	—	—	—	5,297	—	—	5,297	—	5,297
Shares issued under the Incentive Award Plan	1,018	—	1	—	(1)	—	—	—	—	—
Shares redeemed for employee tax withholdings	(405)	—	(1)	—	(14,190)	—	—	(14,191)	—	(14,191)
Conversion of Class B Common Stock into Class A Common Stock	562	(562)	—	—	—	—	—	—	—	—
Repurchases of common stock	(3,656)	—	(3)	—	(99,974)	—	—	(99,977)	—	(99,977)
Balance at December 31, 2018	129,525	23,983	\$ 129	\$ 24	\$ 375,017	\$ (31,488)	\$ 1,691,276	\$ 2,034,958	\$ 154,317	\$ 2,189,275

See accompanying notes to consolidated financial statements

SKECHERS U.S.A., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net earnings	\$ 371,273	\$ 235,104	\$ 285,359
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization of property, plant and equipment	98,966	82,764	66,083
Amortization of other assets	10,714	13,746	13,099
Provision for bad debts and returns	35,730	18,398	30,820
Non-cash share-based compensation	30,468	28,902	23,081
Deferred income taxes	(9,767)	(3,947)	(11,936)
Gain (loss) on non-current assets	550	(2,187)	413
Net foreign currency adjustments	10,072	(7,749)	(3,949)
(Increase) decrease in assets:			
Receivables	(136,188)	(102,222)	(10,350)
Inventories	(7,212)	(158,628)	(58,152)
Prepaid expenses and other current assets	(28,356)	(9,145)	(15,343)
Other assets	(1,713)	(8,916)	(5,056)
Increase (decrease) in liabilities:			
Accounts payable	174,352	(12,806)	38,247
Accrued expenses and other long-term liabilities	19,663	86,023	9,306
Net cash provided by operating activities	<u>568,552</u>	<u>159,337</u>	<u>361,622</u>
Cash flows from investing activities:			
Capital expenditures	(143,036)	(135,976)	(119,471)
Intangible asset additions	—	(214)	—
Purchases of investments	(446,127)	(2,344)	(3,810)
Proceeds from sales of investments	269,749	284	170
Acquisition of South Korea distributor	—	—	(22,534)
Net cash used in investing activities	<u>(319,414)</u>	<u>(138,250)</u>	<u>(145,645)</u>
Cash flows from financing activities:			
Net proceeds from the issuances of common stock through employee stock purchase plan	5,297	5,479	5,120
Payments on long-term debt	(1,683)	(1,783)	(15,653)
Proceeds from long-term debt	18,626	5,745	—
Proceeds (payments) on short-term borrowings	(787)	1,925	6,091
Payments for taxes related to net share settlement of equity awards	(14,191)	—	—
Excess tax benefits from share-based compensation	—	—	4,682
Repurchase of Class A common stock	(99,977)	—	—
Distributions to non-controlling interests of consolidated entity	(27,000)	(25,953)	(17,744)
Contribution from non-controlling interests of consolidated entity	—	46	13,980
Net cash used in financing activities	<u>(119,715)</u>	<u>(14,541)</u>	<u>(3,524)</u>
Net increase in cash and cash equivalents	129,423	6,546	212,453
Effect of exchange rates on cash and cash equivalents	6,383	11,349	(1,908)
Cash and cash equivalents at beginning of the year	736,431	718,536	507,991
Cash and cash equivalents at end of the year	<u>\$ 872,237</u>	<u>\$ 736,431</u>	<u>\$ 718,536</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 5,568	\$ 6,392	\$ 5,724
Income taxes, net	93,041	56,633	65,260

See accompanying notes to consolidated financial statements.

SKECHERS U.S.A., INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018, 2017 and 2016

(1) THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) The Company and Basis of Presentation

Skechers U.S.A., Inc. and subsidiaries (the “Company”) designs, develops, markets and distributes footwear. The Company operates 470 domestic and 222 international retail stores and an e-commerce business as of December 31, 2018.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to consolidated financial statements of prior years to conform to the current year presentation.

(b) Use of Estimates

The Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States. Significant areas requiring the use of estimates relate primarily to revenue recognition, allowance for bad debts, returns, sales allowances and customer chargebacks, inventory write-downs, valuation of intangibles and long-lived assets, litigation reserves and valuation of deferred income taxes. Actual results could differ materially from those estimates.

(c) Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09 “*Revenue from Contracts with Customers*,” (“ASU 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. For the Company’s annual and interim reporting periods the mandatory adoption date of ASC 606 was January 1, 2018, and two methods of adoption were allowed, either a full retrospective adoption or a modified retrospective adoption. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 to January 1, 2018. In March 2016, April 2016, May 2016, and December 2016, the FASB issued ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2016-20, respectively, as clarifications to ASU 2014-09. ASU 2016-08 clarifies how to identify the unit of accounting for the principal versus agent evaluation, how to apply the control principle to certain types of arrangements, such as service transactions, and reframed the indicators in the guidance to focus on evidence that an entity is acting as a principal rather than as an agent. ASU 2016-10 clarifies the existing guidance on identifying performance obligations and licensing implementation. ASU 2016-12 adds practical expedients related to the transition for contract modifications and further defines a completed contract, clarifies the objective of the collectability assessment and how revenue is recognized if collectability is not probable, and when non-cash considerations should be measured. ASU 2016-20 corrects or improves guidance in thirteen narrow focus aspects of the guidance. The effective dates for these ASUs are the same as the effective date for ASU No. 2014-09, for the Company’s annual and interim periods beginning January 1, 2018. These ASUs also require enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows. The Company adopted the new revenue standard effective January 1, 2018 using the modified retrospective method. The adoption of these standards did not have a material impact on the Company’s consolidated financial statements.

The Company recognizes revenue when control of the promised goods or services is transferred to its customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company derives income from the sale of footwear and royalties earned from licensing the Skechers brand. For North America, goods are shipped Free on Board (“FOB”) shipping point directly from the Company’s domestic distribution center in Rancho Belago, California. For international wholesale customers product is shipped FOB shipping point, (i) direct from the Company’s distribution center in Liege, Belgium, (ii) to third-party distribution centers in Central America, South America and Asia, (iii) directly from third-party manufacturers to our other international customers. For our distributor sales, the goods are generally delivered directly from the independent factories to third-party distribution centers or to our distributors’ freight forwarders on a Free Named Carrier (“FCA”) basis. The Company recognizes revenue on wholesale sales upon shipment as that is when the customer obtains control of the promised goods. Related costs paid to third-party shipping companies are recorded as cost of sales and are accounted for as a fulfillment cost and not as a separate performance obligation. The Company generates retail revenues primarily from the sale of footwear to customers at retail locations or through the Company’s websites. For our in-store sales, the Company recognizes revenue at the point of sale. For sales made through the Company’s websites, the Company recognizes revenue upon shipment to the customer which is when the customer obtains control of the promised good. Sales and value added taxes collected from e-commerce or retail customers are excluded from reported revenues.

The Company records accounts receivable at the time of shipment when the Company's right to the consideration becomes unconditional. The Company typically extends credit terms to our wholesale customers based on their creditworthiness and generally does not receive advance payments. Generally, wholesale customers do not have the right to return goods, however, the Company periodically decides to accept returns or provide customers with credits. Allowances for estimated returns, discounts, doubtful accounts and chargebacks are provided for when related revenue is recorded. Retail and e-commerce sales represent amounts due from credit card companies and are generally collected within a few days of the purchase. As such, the Company has determined that no allowance for doubtful accounts for retail and e-commerce sales is necessary.

The Company earns royalty income from its licensing arrangements which qualify as symbolic licenses rather than functional licenses. 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 is earned (i.e., as licensed sales are reported to the Company or on a straight-line basis over the term of the agreement). The Company applies the sales-based royalty exception for the royalty income based on sales and recognizes revenue only when subsequent sales occur. The Company calculates and accrues estimated royalties based on the agreement terms and correspondence with the licensees regarding actual sales.

Judgments

The Company considered several factors in determining that control transfers to the customer upon shipment of products. These factors include that legal title transfers to the customer, the Company has a present right to payment, and the customer has assumed the risks and rewards of ownership at the time of shipment. The Company accrues a liability for product returns at the time of sale based on our historical experience. The Company also accrues amounts for goods expected to be returned in salable condition. During the first quarter of 2018, the Company reclassified \$30.7 million of its sales return and allowance from accounts receivable to accrued expenses, which increased both assets and liabilities by \$30.7 million. As of December 31, 2018 and December 31, 2017, the Company's sales returns liability totaled \$67.3 million and \$43.4 million, respectively, and was included in accrued expenses and accounts receivable in the consolidated balance sheets, respectively.

Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic revenue recognition methodology under ASC 605, *Revenue Recognition*.

(d) Business Segment Information

The Company's operations and segments are organized along its distribution channels and consist of the following: domestic wholesale, international wholesale, and retail, which includes e-commerce sales. Information regarding these segments is summarized in Note 19 – Segment and Geographic Reporting.

(e) Noncontrolling Interests

The Company has equity interests in several joint ventures that were established either to exclusively distribute the Company's products throughout Asia and the Middle East or to construct the Company's domestic distribution facility. These joint ventures are variable interest entities ("VIE")'s under Accounting Standards Codification ("ASC") 810-10-15-14. The Company's determination of the primary beneficiary of a VIE considers all relationships between the Company and the VIE, including management agreements, governance documents and other contractual arrangements. The Company has determined that it is the primary beneficiary for these VIE's because the Company has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance; and (b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity, or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. Accordingly, the Company includes the assets and liabilities and results of operations of these entities in its consolidated financial statements, even though the Company may not hold a majority equity interest. There have been no changes during 2018 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.

(f) Fair Value of Financial Instruments

The accounting standard for fair value measurements provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. This accounting standard established a fair value hierarchy, which requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. The Company's Level 1 non-derivative investments primarily include money market funds and U.S. Treasury securities.
- Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's Level 2 non-derivative investments primarily include corporate notes and bonds, asset-backed securities, U.S. Agency securities, and actively traded mutual funds. The Company has one Level 2 derivative which is an interest rate swap related to the refinancing of its domestic distribution center (see below).
- Level 3 – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability. The Company currently does not have any Level 3 assets or liabilities.

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

As of August 12, 2015, the Company entered into an interest rate swap agreement concurrent with refinancing its domestic distribution center construction loan (see Note 7, Derivative Instruments). 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 December 31, 2018, the interest rate swap was a Level 2 derivative and was classified as other long-term liabilities in the Company's consolidated balance sheets.

(g) Cash and Cash Equivalents

Cash and cash equivalents include deposits with initial terms of less than three months. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(h) Investments

In general, investments with original maturities of greater than three months and remaining maturities of less than one year are classified as short-term investments. Investments consist of U.S. Treasury Bonds, U.S. Agency securities, corporate notes and bonds, asset-backed securities and actively traded mutual funds.

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

The Company provides a reserve, charged against revenue and its receivables, for estimated losses that may result from its customers' inability to pay. To minimize the likelihood of uncollectability, customers' credit-worthiness is reviewed and adjusted periodically in accordance with external credit reporting services, financial statements issued by the customer and the Company's experience with the account. When a customer's account becomes significantly past due, the Company generally places a hold on the account and discontinues further shipments to that customer, minimizing further risk of loss. The Company determines the amount of the reserve by analyzing known uncollectible accounts, aged receivables, economic conditions in the customers' countries or industries, historical losses and its customers' credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged against this reserve. Allowance for returns, sales allowances and customer chargebacks are recorded against revenue. Allowances for bad debts are recorded to general and administrative expenses. Retail and e-commerce receivables represent

amounts due from credit card companies and are generally collected within a few days of the purchase. As such, the Company has determined that no allowance for doubtful accounts is necessary.

The Company also reserves for potential disputed amounts or chargebacks from its customers. The Company's chargeback reserve is based on a collectability percentage calculated using factors such as historical trends, current economic conditions, and nature of the chargeback receivables. The Company also reserves for potential sales returns and allowances based on historical trends.

The likelihood of a material loss on an uncollectible account would be mainly dependent on deterioration in the overall economic conditions in a particular country or environment. Reserves are fully provided for all probable losses of this nature. For receivables that are not specifically identified as high-risk, the Company provides a reserve based upon its historical loss rate as a percentage of sales.

(j) Inventories

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

(k) Property, Plant and Equipment

Depreciation and amortization of property, plant and equipment is computed using the straight-line method, which based on the following estimated useful lives:

Buildings	20 years
Building improvements	10 years
Furniture, fixtures and equipment	5 to 20 years
Leasehold improvements	Useful life or remaining lease term, whichever is shorter

Property, plant and equipment subject to depreciation and amortization is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. The Company reviews both quantitative and qualitative factors to assess whether a triggering event occurred. The Company reviews all stores for impairment annually or more frequently if events or changes in circumstances require it. The Company prepares a summary of store cash flows from its retail stores to assess potential impairment of the fixed assets and leasehold improvements. Stores with negative cash flows which have been open in excess of 24 months are then reviewed in detail to determine whether impairment exists. Recoverability of assets or asset group to be held and used is measured by a comparison of the carrying amount of an asset or asset group to the estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset or asset group exceeds the fair value of the asset or asset group. The Company did not record impairment charges during the years ended December 31, 2018, 2017 or 2016.

(l) Income Taxes

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

(m) Foreign Currency Translation

In accordance with ASC 830-30, certain international operations use the respective local currencies as their functional currency, while other international operations use the U.S. Dollar as their functional currency. The Company considers the U.S. dollar as its reporting currency. The Company operates internationally through several foreign subsidiaries. Skechers S.a.r.l. located in Switzerland, operates with a functional currency of the U.S. dollar. Translation adjustments for subsidiaries where the functional currency is its local currency are included in other comprehensive income. Foreign currency transaction gains (losses) resulting from exchange rate fluctuation on transactions denominated in a currency other than the functional currency are reported in earnings. Assets and liabilities of the foreign operations denominated in local currencies are translated at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the weighted average rate of exchange during the period. Translations of intercompany loans of a long-term investment nature are included as a component of translation adjustment in other comprehensive income.

(n) Comprehensive Income

Comprehensive income is presented in the consolidated statements of comprehensive income. Comprehensive income consists of net earnings, foreign currency translation adjustments, and income attributable to non-controlling interests.

(o) Advertising Costs

Advertising costs are expensed in the period in which the advertisements are first run, or over the life of the endorsement contract. Advertising expense for the years ended December 31, 2018, 2017 and 2016 was approximately \$278.4 million, \$260.4 million and \$213.1 million, respectively. Prepaid advertising costs were \$4.4 million and \$8.6 million at December 31, 2018, and 2017, respectively. Prepaid amounts outstanding at December 31, 2018 and 2017 represent the unamortized portion of endorsement contracts, advertising in trade publications and media productions created, but not run, as of December 31, 2018 and 2017, respectively.

(p) Product Design and Development Costs

The Company charges all product design and development costs to general and administrative expenses, when incurred. Product design and development costs aggregated approximately \$18.5 million, \$18.8 million, and \$13.6 million during the years ended December 31, 2018, 2017 and 2016, respectively.

(q) Warehouse and Distribution Costs

The Company's distribution network-related costs are included in general and administrative expenses and are not allocated to specific segments. The expenses related to its distribution network, including the functions of purchasing, receiving, inspecting, allocating, warehousing and packaging of its products totaled \$249.6 million, \$219.6 million and \$187.3 million for 2018, 2017 and 2016, respectively.

(r) Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02 "*Leases (Topic 842)*," ("ASU 2016-02"). ASU 2016-02 is intended to increase transparency and comparability among organizations relating to leases. Lessees will be required to recognize a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset for the lease term. The FASB retained a dual model for lease classification, requiring leases to be classified as finance or operating leases to determine recognition in the earnings statement and cash flows; however, substantially all leases will be required to be recognized on the balance sheet. ASU 2016-02 will also require quantitative and qualitative disclosures regarding key information about leasing arrangements. ASU 2016-02 is effective using a modified retrospective approach for fiscal years and interim periods beginning after December 15, 2018, with early adoption permitted. As originally issued, ASU 2016-02 requires application at the beginning of the earliest comparative period presented at the time of adoption. In July 2018, the FASB issued ASU No. 2018-10, "*Codification Improvements to Topic 842, Leases*," ("ASU 2018-10"). This ASU makes various targeted amendments to the leasing standard. In July 2018, the FASB issued ASU 2018-11, "*Leases (Topic 842): Targeted Improvements*," ("ASU No. 2018-11"). This standard allows entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The standard also provides for certain practical expedients. We adopted this ASU on January 1, 2019, using the optional transition method and also elected to use the 'package of practical expedients', which allows us not to continue to reassess our previous conclusions about lease identification, lease classification and initial direct costs. The Company is still assessing the impact of the new standard on its consolidated financial statements and its internal controls process and finalizing the present value calculation for its right-of-use asset. The Company anticipates a material increase in assets and liabilities due to the recognition of the required right-of-use asset and corresponding liability for all lease obligations that are currently classified as operating leases such as retail stores, real estate leases for corporate headquarters, administrative offices, showrooms, and distribution facilities, as well as the significant new quantitative and qualitative disclosure requirements on all of the Company's lease obligations. The Company expects the right of use asset will be the present value of the remaining lease payments as noted in Note 9 – Commitments and Contingencies. The earnings statement recognition of lease expense is expected to be similar to the Company's current methodology.

In February 2018, the FASB issued ASU No. 2018-02, "*Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*," ("ASU 2018-02"). The standard permits a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. ASU 2018-02 is effective for the Company's annual and interim reporting periods beginning December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of ASU 2018-02; however, at the current time the Company does not expect that the adoption of this ASU will have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13 "*Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*," ("ASU No. 2018-13"), which modifies the disclosure requirements on

fair value measurements, including the consideration of costs and benefits. ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Company is currently evaluating the impact of ASU 2018-13; however, at the current time the Company does not expect that the adoption of this ASU will have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15 “*Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*,” (“ASU 2018-15”). ASU 2018-15 requires that issuers follow the internal-use software guidance in Accounting Standards Codification (ASC) 350-40 to determine which costs to capitalize as assets or expense as incurred. The ASC 350-40 guidance requires that certain costs incurred during the application development stage be capitalized and other costs incurred during the preliminary project and post-implementation stages be expensed as they are incurred. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of ASU 2018-15; however, at the current time the Company does not expect that the adoption of this ASU will have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, “*Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instrument*,” (“ASU 2016-13”). The new standard amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which may result in earlier recognition of losses. Public business entities should apply the guidance in ASU 2016-13 for annual periods beginning after December 15, 2019, including interim periods within those annual periods. Early adoption will be permitted for annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of ASU 2016-13; however, at the current time the Company does not expect that the adoption of this ASU will have a material impact on its consolidated financial statements.

(2) CASH, CASH EQUIVALENTS, SHORT-TERM AND LONG-TERM INVESTMENTS

The Company’s investments consists of mutual funds held in the company’s deferred compensation plan and classified as trading securities, U.S. Treasury securities, corporate notes and bonds and U.S. Agency securities, that the Company has the intent and ability to hold to maturity and therefore, are classified as held-to-maturity. The following tables show the Company’s cash, cash equivalents, short-term and long-term investments by significant investment category as of December 31, 2018 and 2017 (in thousands):

December 31, 2018							
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash	\$ 713,624	\$ -	\$ -	\$ 713,624	\$ 713,624	\$ -	\$ -
Level 1:							
Money market funds	158,613	-	-	158,613	158,613	-	-
U.S. Treasury securities	6,955	-	-	6,955	-	4,979	1,976
Total level 1	<u>165,568</u>	<u>-</u>	<u>-</u>	<u>165,568</u>	<u>158,613</u>	<u>4,979</u>	<u>1,976</u>
Level 2:							
Corporate notes and bonds	132,280	-	-	132,280	-	88,412	43,868
Asset-backed securities	23,310	-	-	23,310	-	2,115	21,195
U.S. Agency securities	10,272	-	-	10,272	-	4,523	5,749
Mutual funds	20,957	-	-	20,957	-	-	20,957
Total level 2	<u>186,819</u>	<u>-</u>	<u>-</u>	<u>186,819</u>	<u>-</u>	<u>95,050</u>	<u>91,769</u>
TOTAL	<u>\$ 1,066,011</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,066,011</u>	<u>\$ 872,237</u>	<u>\$ 100,029</u>	<u>\$ 93,745</u>
December 31, 2017							
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash	\$ 736,431	\$ -	\$ -	\$ 736,431	\$ 736,431	\$ -	\$ -
Level 2:							
Mutual funds	17,396	-	-	17,396	-	-	17,396
TOTAL	<u>\$ 753,827</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 753,827</u>	<u>\$ 736,431</u>	<u>\$ -</u>	<u>\$ 17,396</u>

The Company may sell certain of its investments prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and duration management. The maturities of the Company’s long-term investments are typically less than two years.

The Company considers declines in market value of its marketable securities investment portfolio to be temporary in nature. The Company typically invests in highly-rated securities, and its investment policy generally limits the amount of credit exposure to any one issuer. The policy generally requires investments to be investment grade, with the primary objective of minimizing the potential risk of principal loss. Fair values were determined for each individual security in the investment portfolio. When evaluating an investment for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates and the Company's intent to sell, or whether it is more likely than not it will be required to sell the investment before recovery of the investment's cost basis. As of December 31, 2018, the Company does not consider any of its investments to be other-than-temporarily impaired.

(3) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2018 and 2017 is summarized as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Land	\$ 83,163	\$ 83,163
Buildings and improvements	246,893	208,351
Furniture, fixtures and equipment	374,706	330,644
Leasehold improvements	401,514	357,920
Total property, plant and equipment	<u>1,106,276</u>	<u>980,078</u>
Less accumulated depreciation and amortization	520,819	438,477
Property, plant and equipment, net	<u>\$ 585,457</u>	<u>\$ 541,601</u>

(4) ACCRUED EXPENSES

Accrued expenses at December 31, 2018 and 2017 are summarized as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Accrued inventory purchases	\$ 40,493	\$ 20,509
Accrued payroll and taxes	72,822	61,693
Return reserve liability	48,466	—
Accrued expenses	<u>\$ 161,781</u>	<u>\$ 82,202</u>

(5) LINE OF CREDIT AND SHORT-TERM BORROWINGS

On October 24, 2018, through our Chinese joint venture, we entered into a \$17.5 million loan agreement with The Hongkong and Shanghai Banking Corporation Limited (the "China Loan Agreement"). The China Loan Agreement allows for partial drawdown. Interest will be paid at one, two or three months, depending on the period of the drawdown. The interest rate will be based upon the London Interbank Offered Rate ("LIBOR") plus 1.2% per annum. As specified in the China Loan Agreement, the principal of the loan will be repayable by fifteen equal quarterly installments of \$437,550, commencing fifteen months after drawdown plus a final installment of \$10,937,500. The loan has a term of 5 years. The China Loan Agreement contains customary affirmative and negative covenants for secured credit facilities of this type. The obligations of the our Chinese joint venture under the China Loan Agreement are jointly and severally guaranteed by the Company and Luen Thai Enterprises Ltd. There was no amount outstanding as of December 31, 2018.

On October 19, 2018, through a subsidiary of our Chinese joint venture ("the TC Subsidiary"), the Company entered into a 50 million yuan revolving loan agreement with China Construction Bank Corporation ("the China DC Revolving Loan Agreement"). The proceeds from the China DC Revolving Loan Agreement will be used to finance the construction and operation of the Company's distribution center in China. Interest will be paid quarterly. The interest rate will be based upon the prime rate from the People's Bank of China less a discount. As specified in the China DC Revolving Loan Agreement, the entire principal balance of the loan will be repaid when the China DC Revolving Loan Agreement matures on October 18, 2019. The TC Subsidiary has the option to extend the China DC Revolving Agreement, conditioned upon the satisfaction of certain terms. The China DC Revolving Loan Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that will limit the ability of the TC Subsidiary, to among other things, allow external investment to be added, pledge assets, issue debt with priority over the China DC Revolving Loan Agreement, and adjust the capital stock structure of the TC Subsidiary. The obligations of the TC Subsidiary under the China DC Revolving Loan Agreement are jointly and severally guaranteed by our Chinese joint venture. Currently there is no amount outstanding as of December 31, 2018.

On September 20, 2018, through two subsidiaries of our Chinese joint venture (the “SGZ and SSH Subsidiaries”), we entered into a 125 million yuan revolving loan agreement with HSBC Bank (China) Company Limited, Guangzhou Branch (the “Revolving Loan Agreement”). The Revolving Loan Agreement is comprised of two tranches: a 125 million yuan revolving loan facility and a 15 million yuan non-financial bank guarantee facility. The proceeds from the Revolving Loan Agreement will be used to finance the SGZ and SSH Subsidiaries’ working capital requirements. Interest will be paid at one, two or three months, depending on the term of each loan. The interest rate will be equal to 100% of the applicable People’s Bank of China (“PBOC”) Benchmark Lending Rate, provided that if the PBOC Benchmark Lending Rate changes during the term of a loan, the applicable interest rate for that loan will not change until the next rollover date of that loan (if any). The Revolving Loan Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that limit the ability of the joint venture to, among other things, allow external investment to be added, pledge assets and issue debt with priority over the Revolving Loan Agreement. The term of each loan will be one, three or six months or such other period as agreed by the lender. The term of a loan, including any extension or rollover, shall not exceed twelve months. The obligations of the Subsidiary under the Revolving Loan Agreement are guaranteed by the Company, Luen Thai Enterprises Ltd., Skechers Guangzhou Co., Ltd and Skechers Trading (Shanghai) Co Ltd. There was no amount outstanding as of December 31, 2018.

On June 30, 2015, the Company entered into a \$250.0 million loan and security agreement, subject to increase by up to \$100.0 million, (the “Credit Agreement”), with the following lenders: Bank of America, N.A., MUFG Union Bank, N.A. and HSBC Bank USA, National Association. The Credit Agreement matures on June 30, 2020. The Credit Agreement replaces the credit agreement dated June 30, 2009, which expired on June 30, 2015. The Credit Agreement permits the Company and certain of its subsidiaries to borrow based on a percentage of eligible accounts receivable plus the sum of (a) the lesser of (i) a percentage of eligible inventory to be sold at wholesale and (ii) a percentage of net orderly liquidation value of eligible inventory to be sold at wholesale, plus (b) the lesser of (i) a percentage of the value of eligible inventory to be sold at retail and (ii) a percentage of net orderly liquidation value of eligible inventory to be sold at retail, plus (c) the lesser of (i) a percentage of the value of eligible in-transit inventory and (ii) a percentage of the net orderly liquidation value of eligible in-transit inventory. Borrowings bear interest at the Company’s election based on (a) LIBOR or (b) the greater of (i) the Prime Rate, (ii) the Federal Funds Rate plus 0.5% and (iii) LIBOR for a 30-day period plus 1.0%, in each case, plus an applicable margin based on the average daily principal balance of revolving loans available under the Credit Agreement. The Company pays a monthly unused line of credit fee of 0.25%, payable on the first day of each month in arrears, which is based on the average daily principal balance of outstanding revolving loans and undrawn amounts of letters of credit outstanding during such month. The Credit Agreement further provides for a limit on the issuance of letters of credit to a maximum of \$100.0 million. The Credit Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that will limit the ability of the Company and its subsidiaries to, among other things, incur debt, grant liens, make certain acquisitions, dispose of assets, effect a change of control of the Company, make certain restricted payments including certain dividends and stock redemptions, make certain investments or loans, enter into certain transactions with affiliates and certain prohibited uses of proceeds. The Credit Agreement also requires compliance with a minimum fixed-charge coverage ratio if Availability drops below 10% of the Revolver Commitments (as such terms are defined in the Credit Agreement) until the date when no event of default has existed and Availability has been over 10% for 30 consecutive days. The Company paid closing and arrangement fees of \$1.1 million on this facility, which are included in Other Assets in the consolidated balance sheets, and are being amortized to interest expense over the five-year life of the facility. As of December 31, 2018 and December 31, 2017, there was \$0.1 million outstanding under the Company’s credit facilities, classified as short-term borrowings in the Company’s consolidated balance sheets. The remaining balance in short-term borrowings as of December 31, 2018 is related to the Company’s joint venture in India.

(6) LONG-TERM BORROWINGS

Long-term borrowings at December 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
Note payable to banks, due in monthly installments of \$364 (includes principal and interest), variable-rate interest at 4.52% per annum, secured by property, balloon payment of \$62,843 due August 2020	\$ 65,148	\$ 66,604
Note payable to Luen Thai Enterprise, Ltd., balloon payment of \$5,800 due January 2021	5,800	5,745
Note payable to TCF Equipment Finance, Inc., due in monthly installments of \$31 (includes principal and interest), fixed-rate interest at 5.24% per annum, due July 2019	210	555
Loan payable to a bank, variable-rate interest at 4.28% per annum, due September 2023	18,626	—
Subtotal	89,785	72,904
Less current installments	1,666	1,801
Total long-term borrowings	<u>\$ 88,119</u>	<u>\$ 71,103</u>

The aggregate maturities of long-term borrowings at December 31, 2018 are as follows (in thousands):

2019	\$ 1,666
2020	63,693
2021	20,941
2022	3,485
2023	—
	<u>\$ 89,785</u>

On September 29, 2018, through the TC subsidiary, the Company entered into a 700 million yuan loan agreement with China Construction Bank Corporation (“the China DC Loan Agreement”). The proceeds from the China DC Loan Agreement will be used to finance the construction of the Company’s distribution center in China. Interest will be paid quarterly. The interest rate will float and be calculated at a reference rate provided by the People’s Bank of China. The interest rate at December 31, 2018 was 4.28% and may increase or decrease over the life of the loan, and will be evaluated every 12 months. The principal of the loan will be repaid in semi-annual installments, beginning in 2021, of variable amounts as specified in the China DC Loan Agreement. The China DC Loan Agreement contains customary affirmative and negative covenants for secured credit facilities of this type, including covenants that limit the ability of the Subsidiary to, among other things, allow external investment to be added, pledge assets, issue debt with priority over the China DC Loan Agreement, and adjust the capital stock structure of the TC Subsidiary. The China DC Loan Agreement matures on September 28, 2023. The obligations of the TC Subsidiary under the China DC Loan Agreement are jointly and severally guaranteed by the Company’s Chinese joint venture. As of December 31, 2018 there was \$18.6 million outstanding under this credit facility, which is classified as long-term borrowings in the Company’s consolidated balance sheets.

On April 30, 2010, HF Logistics-SKX, LLC (the “JV”), through 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 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 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 payment on the Original Loan based on the Company’s 50% equity interest in the JV. The payment 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 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 the Company's 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 the Credit Agreement dated June 30, 2015 (see Note 7, Derivative Instruments).

The Company's short-term and 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 short-term and long-term borrowings as of December 31, 2018.

(7) DERIVATIVE INSTRUMENTS

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage exposure to interest rate movements. To accomplish this objective, the Company used an interest rate swap as part of its interest rate risk management strategy. The Company's interest rate swap involves the receipt of variable amounts from a counterparty in exchange for making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. On August 12, 2015, in connection with refinancing its domestic distribution center loan, described in Note 6 above, the Company entered into a variable-to-fixed interest rate swap agreement with Bank of America, N.A., to hedge the cash flows on the Company's \$70.0 million variable rate debt. As of December 31, 2018, the swap agreement has an aggregate notional amount of \$65.1 million and a maturity date of August 12, 2022, subject to early termination commencing on August 1, 2020 at the option of HF Logistics-SKX T1, LLC ("HF-T1"), a wholly-owned subsidiary of the Company's joint venture HF Logistics-SKX, LLC (the "JV"). Under the terms of the swap agreement, the Company will pay a weighted-average fixed rate of 2.08% on the \$65.1 million notional amount and receive payments from the counterparty based on the 30-day LIBOR rate. The rate swap agreement utilized by the Company effectively modifies its exposure to interest rate risk by converting the Company's floating-rate debt to a fixed-rate of 4.08% for the life of the loan thus reducing the impact of interest-rate changes on future interest expense. Pursuant to the terms of the JV, HF Logistics is responsible for any amounts related to the Swap Agreement.

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 December 31, 2018, all counterparties to the interest rate swap had performed in accordance with their contractual obligations.

(8) OTHER LONG-TERM LIABILITIES

Other long-term liabilities at December 31, 2018 and 2017 are as follows (in thousands):

	2018	2017
Other long term liabilities	\$ 21,458	\$ 19,059
Income taxes payable	78,730	99,200
	<u>\$ 100,188</u>	<u>\$ 118,259</u>

(9) COMMITMENTS AND CONTINGENCIES

(a) Leases

The Company leases facilities under operating lease agreements expiring through October 13, 2033. The Company pays taxes, maintenance and insurance in addition to the lease obligations. Leases may provide for renewal options and rent escalations tied to either increases in the lessor's operating expenses, fluctuations in the consumer price index in the relevant geographical area, or a percentage of gross sales in excess of a base annual rent. The Company also leases certain equipment and automobiles under operating lease agreements expiring at various dates through November 30, 2021. Rent expense for the years ended December 31, 2018, 2017 and 2016 approximated \$257.6 million, \$223.7 million and \$171.0 million, respectively.

Minimum lease payments, which take into account escalation clauses, are recognized on a straight-line basis over the minimum lease term. Reimbursements for leasehold improvements are recorded as liabilities and are amortized as a reduction to rent expense over the lease term. Lease concessions, usually a free rent period, are considered in the calculation of the minimum lease payments for the minimum lease term.

Future minimum lease payments under noncancellable leases at December 31, 2018 are as follows (in thousands):

	OPERATING LEASES
Year ending December 31:	
2019	\$ 251,711
2020	228,716
2021	203,979
2022	178,850
2023	181,227
Thereafter	596,901
	<u>\$ 1,641,384</u>

(b) Product and Other Financing

The Company finances production activities in part through the use of interest-bearing open purchase arrangements with certain of its international manufacturers. These arrangements currently bear interest at rates between 0.0% and 0.5% for 30- to 60-day financing. The amounts outstanding under these arrangements at December 31, 2018 and 2017 were \$180.5 million and \$177.4 million, respectively, which are included in accounts payable in the accompanying consolidated balance sheets. Interest expense incurred by the Company under these arrangements amounted to \$3.3 million in 2018, \$4.8 million in 2017, and \$4.4 million in 2016. The Company has open purchase commitments with its foreign manufacturers at December 31, 2018 of \$887.9 million, which are not included in the accompanying 2018 consolidated balance sheet.

(c) Litigation

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

In accordance with U.S. GAAP, the Company records a liability in its consolidated financial statements for loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and governmental proceedings are inherently difficult to predict, particularly when the matters are in the procedural stages or with unspecified or indeterminate claims for damages, potential penalties, or fines. Accordingly, the Company cannot determine the final amount, if any, of its liability beyond the amount accrued in the consolidated financial statements as of December 31, 2018, nor is it possible to estimate what litigation-related costs will be in the future; however, the Company believes that the likelihood that claims related to litigation would result in a material loss to the Company, either individually or in the aggregate, is remote.

(10) STOCKHOLDERS' EQUITY

The authorized capital stock of the Company consists of 500 million shares of Class A Common Stock, par value \$.001 per share, 75 million shares of Class B Common Stock, par value \$.001 per share, and 10 million shares of preferred stock, par value \$.001 per share.

During 2018 and 2016, certain Class B stockholders converted 561,876 and 1,733,270 shares, respectively, of Class B Common Stock to Class A Common Stock. During 2017, no Class B Common Stock was converted to Class A Common Stock. (see Note 13 – Earnings Per Share).

(11) NONCONTROLLING INTERESTS

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

<u>HF Logistics-SKX, LLC</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Current assets	\$ 2,121	\$ 1,540
Non-current assets	98,148	103,407
Total assets	<u>\$ 100,269</u>	<u>\$ 104,947</u>
Current liabilities	\$ 2,738	\$ 2,718
Non-current liabilities	64,702	66,367
Total liabilities	<u>\$ 67,440</u>	<u>\$ 69,085</u>

<u>Distribution joint ventures (1)</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Current assets	\$ 540,768	\$ 389,687
Non-current assets	128,250	90,972
Total assets	<u>\$ 669,018</u>	<u>\$ 480,659</u>
Current liabilities	\$ 294,640	\$ 188,700
Non-current liabilities	26,444	9,201
Total liabilities	<u>\$ 321,084</u>	<u>\$ 197,901</u>

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

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

	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net earnings attributable to non-controlling interests	\$ 70,232	\$ 55,914	\$ 41,866
Distributions to:			
HF Logistics-SKX, LLC	4,374	3,787	4,091
Skechers China Limited	19,915	20,620	11,922
Skechers Southeast Asia Limited	2,025	1,347	1,280
Skechers Hong Kong Limited	618	199	451
India distribution joint ventures	68	—	—
Contributions from:			
India distribution joint ventures	—	—	2,943
Skechers Korea Co., Ltd.	—	—	8,273
Skechers Footwear Ltd. (Israel)	—	46	2,764

(12) SHARE REPURCHASE PROGRAM

On February 6, 2018, the Company's Board of Directors authorized a share repurchase program (the "Share Repurchase Program"), pursuant to which the Company may, from time to time, purchase shares of its Class A common stock, par value \$0.001 per share ("Class A common stock"), for an aggregate repurchase price not to exceed \$150 million. The Share Repurchase Program expires on February 6, 2021. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Act of 1934, as amended, subject to market conditions, applicable legal requirements and other relevant factors. The Share Repurchase Program does not obligate the Company to acquire any particular amount of shares of Class A common stock and the program may be suspended or discontinued at any time.

The following table provides a summary of the Company's stock repurchase activities during the year ended December 31, 2018:

	Year ended December 31, 2018
Shares repurchased	3,656,277
Average cost per share	\$ 27.34
Total cost of shares repurchased (in thousands):	\$ 99,977

(13) 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 earnings per share (in thousands):

Basic earnings per share	2018	2017	2016
Net earnings attributable to Skechers U.S.A., Inc.	\$ 301,041	\$ 179,190	\$ 243,493
Weighted average common shares outstanding	155,815	155,651	154,169
Basic earnings per share attributable to Skechers U.S.A., Inc.	\$ 1.93	\$ 1.15	\$ 1.58
Diluted earnings per share	2018	2017	2016
Net earnings attributable to Skechers U.S.A., Inc.	\$ 301,041	\$ 179,190	\$ 243,493
Weighted average common shares outstanding	155,815	155,651	154,169
Dilutive effect of nonvested shares	635	872	915
Weighted average common shares outstanding	<u>156,450</u>	<u>156,523</u>	<u>155,084</u>
Diluted earnings per share attributable to Skechers U.S.A., Inc.	<u>\$ 1.92</u>	<u>\$ 1.14</u>	<u>\$ 1.57</u>

There were 352,169, 116,762, and 346,912 shares excluded from the computation of diluted earnings per share for the year ended December 31, 2018, 2017, and 2016 respectively because they are anti-dilutive.

(14) STOCK COMPENSATION

(a) Incentive Award Plan

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

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

A summary of the status and changes of nonvested shares related to the 2007 Plan and the 2017 Plan, as of and for the year ended December 31, 2018 is presented below:

	SHARES	WEIGHTED-AVERAGE GRANT-DATE FAIR VALUE
Nonvested at January 1, 2016	2,725,500	\$ 15.77
Granted	1,444,000	31.69
Vested/Released	(1,108,336)	12.32
Cancelled	(18,000)	17.81
Nonvested at December 31, 2016	3,043,164	24.57
Granted	495,600	24.69
Vested/Released	(1,157,207)	20.73
Cancelled	(78,000)	32.62
Nonvested at December 31, 2017	2,303,557	26.25
Granted	1,811,000	38.05
Vested/Released	(1,018,283)	21.91
Cancelled	(127,333)	29.71
Nonvested at December 31, 2018	<u>2,968,941</u>	34.79

As of December 31, 2018, a total of 8,090,500 shares remain available for grant as equity awards under the 2017 Plan.

The Company recognized in the consolidated statements of earnings compensation expense of \$30.5 million, \$28.9 million and \$23.1 million for grants under its stock compensation plans for the years ended December 31, 2018, 2017, and 2016. Related excess income tax benefits of \$1.6 million and \$2.6 million was recorded in the statement of earnings for the years ended December 31, 2018 and December 31, 2017, respectively. Related excess income tax benefits of \$4.7 million for grants under its stock compensation plans for the year ended December 31, 2016 was recorded in additional paid-in capital. Nonvested shares generally vest over a graded vesting schedule from one to four years from the date of grant. There was \$76.0 million of unrecognized compensation cost related to nonvested common shares as of December 31, 2018, which is expected to be recognized over a weighted average period of 2.6 years. The total fair value of shares vested during the year ended December 31, 2018 and 2017 was \$22.3 million and \$24.0 million, respectively.

(b) Stock Purchase Plan

On April 17, 2017, the Company's Board of Directors adopted the 2018 Employee Stock Purchase Plan (the "2018 ESPP"), which the Company's stockholders approved on May 23, 2017. The 2018 ESPP replaced the Company's previous employee stock purchase plan, the Skechers U.S.A., Inc. 2008 Employee Stock Purchase Plan (the "2008 ESPP"), which expired pursuant to its terms on January 1, 2018. The 2018 Employee Stock Purchase Plan provides eligible employees of the Company and its subsidiaries with the opportunity to purchase shares of the Company's Class A Common Stock at a purchase price equal to 85% of the Class A

Common Stock's fair market value on the first trading day or last trading day of each purchase period, whichever is lower. The 2018 ESPP generally provides for two six-month purchase periods every twelve months: June 1 through November 30 and December 1 through May 31, except that the initial purchase period under the 2018 ESPP had a duration of five months, commencing on January 1, 2018 and ending on May 31, 2018. Eligible employees participating in the 2018 ESPP for a purchase period will be able to invest up to 15% of their compensation through payroll deductions during each purchase period. A total of 5,000,000 shares of Class A Common Stock will be available for sale under the 2018 ESPP.

During 2018, 2017 and 2016, 221,889 shares, 240,000 shares and 220,844 shares were issued under the 2018 ESPP and 2008 ESPP for which the Company received approximately \$5.3 million, \$5.5 million and \$5.1 million, respectively. The purchase price discount and the look-back feature cause the 2018 ESPP to be compensatory and the Company recognizes compensation expense which is computed using Black-Scholes options pricing model.

(15) INCOME TAXES

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Federal:			
Current	\$ 11,379	\$ 110,448	\$ 45,258
Deferred	(3,971)	3,768	(3,961)
Total federal	<u>7,408</u>	<u>114,216</u>	<u>41,297</u>
State:			
Current	5,408	2,747	3,406
Deferred	(1,316)	(3,356)	(49)
Total state	<u>4,092</u>	<u>(609)</u>	<u>3,357</u>
Foreign:			
Current	53,071	40,147	31,046
Deferred	(3,960)	(4,598)	(1,575)
Total foreign	<u>49,111</u>	<u>35,549</u>	<u>29,471</u>
Total income taxes (benefit)	<u>\$ 60,611</u>	<u>\$ 149,156</u>	<u>\$ 74,125</u>

Due to the enactment of Tax Cuts and Jobs Act ("the Tax Act") in December 2017, the Company is subject to a tax on global intangible low-taxed income ("GILTI"). GILTI is a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. Companies subject to GILTI have the option to account for the GILTI tax as a period cost if and when incurred, or to recognize deferred taxes for temporary differences including outside basis differences expected to reverse as GILTI. The Company has elected to account for GILTI as a period cost, and therefore has included GILTI expense in its effective tax rate calculation for the period.

The SEC staff issued Staff Accounting Bulletin 118, ("SAB 118"), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under Accounting Standards Codification 740 ("ASC 740"). In connection with its initial analysis of the impact of the Tax Act, the Company recorded a provisional one-time net tax expense of \$99.9 million for the year-ended December 31, 2017. In 2018, the Company obtained additional information which reduced the Company's provisional accounting for certain tax effects of the Tax Act by \$10.9 million, from \$99.9 million as reported at December 31, 2017, to \$89.0 million.

The Company's provision for income tax expense (benefit) 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 non-U.S. jurisdictions in which the Company has operations, the applicable statutory rates are generally lower than in the U.S., ranging from 0% to 34.6%. The Company's provision for income tax expense (benefit) was calculated using the applicable statutory rate for each jurisdiction applied to the Company's pre-tax earnings (loss) in each jurisdiction, while the Company's effective tax rate is calculated by dividing income tax expense (benefit) by earnings before income taxes.

The Company's earnings (loss) before income taxes and income tax expense (benefit) for 2018, 2017 and 2016 are as follows (in thousands):

Income tax jurisdiction	Years Ended December 31,					
	2018		2017		2016	
	Earnings (loss) before income taxes	Income tax expense (benefit)	Earnings (loss) before income taxes	Income tax expense	Earnings (loss) before income taxes	Income tax expense
United States (1)	\$ 16,597	\$ 11,500	\$ 25,628	\$ 113,607	\$ 105,589	\$ 44,654
Peoples Republic of China ("China")	89,429	19,595	95,668	12,971	72,584	11,720
Hong Kong	48,352	8,106	17,778	5,030	15,156	5,206
Jersey (2)	213,327	—	198,048	—	146,880	—
Non-benefited loss operations (3)	(11,422)	(3,387)	(17,350)	3,306	(16,189)	12
Other jurisdictions (4)	75,601	24,797	64,488	14,242	35,464	12,533
Earnings before income taxes	\$ 431,884	\$ 60,611	\$ 384,260	\$ 149,156	\$ 359,484	\$ 74,125
Effective tax rate (5)		14.0%		38.8%		20.6%

(1) United States income tax expense for 2017 includes a provisional one-time \$99.9 million tax expense related to the enactment of the United States Tax Cuts & Jobs Act on December 22, 2017.

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

(3) Consists of entities in the following tax jurisdictions where no tax benefit is recognized in the period being reported because of the provision of offsetting valuation allowances: Barbados, Brazil, China, India, Israel, Japan, Panama, Romania, Thailand, and South Korea.

(4) Consists of entities in the following tax jurisdictions, each of which comprises not more than 5% of consolidated earnings (loss) before taxes in the period being reported: Albania, Austria, Belgium, Bosnia & Herzegovina, Canada, Chile, Colombia, Costa Rica, France, Germany, Hungary, India, Italy, Kosovo, Macau, Macedonia, Malaysia, Montenegro, Netherlands, Panama, Peru, Poland, Portugal, Serbia, Singapore, Spain, Switzerland, Vietnam, and the United Kingdom.

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

For 2018, the effective tax rate was lower than the U.S. federal and state combined statutory rate of approximately 26%, primarily because of earnings from foreign operations in jurisdictions imposing either lower tax rates on corporate earnings or no corporate income tax. During 2018, as reflected in the table above, earnings (loss) before income taxes in the U.S. were \$16.6 million, with income tax expense of \$11.5 million, which is an average rate of 69%. This rate is higher than the 26% U.S. statutory rate primarily due to the impact of U.S. non-deductible expenses. Earnings (loss) before income taxes in non-U.S. jurisdictions were \$415.3 million, with an aggregate income tax expense of \$49.1 million, which is an average rate of 11.8%. Combined, this results in consolidated earnings before income taxes for the period of \$431.9 million, and consolidated income tax expense for the period of \$60.6 million, resulting in an effective tax rate of 14.0%. For 2018, of our \$415.3 million in earnings before income tax earned outside the U.S., \$213.3 million was earned in Jersey, which does not impose a tax on corporate earnings. In Jersey, earnings before income taxes increased by \$15.3 million to \$213.3 million in 2018 from \$198.0 million in 2017. This increase was primarily attributable to an increase in international sales which resulted in an increase in earnings before income taxes in Jersey from royalties and commissions under the terms of our inter-subsidiary agreements. In addition, there were foreign losses of \$11.2 million for which no tax benefit was recognized during the year ended December 31, 2018 because of the provision of offsetting valuation allowances, but for which \$3.4 million in prior year tax refunds were received. Individually, none of the other foreign jurisdictions included in "Other jurisdictions" in the table above had earnings greater than 5% of our consolidated earnings (loss) before taxes in any of the years shown. Unremitted earnings of non-U.S. subsidiaries for which no tax has been provided are expected to be reinvested outside of the U.S. indefinitely. Such earnings could become taxable upon the sale or liquidation of these subsidiaries or upon the remittance of dividends.

As of December 31, 2018, we had approximately \$872.2 million in cash and cash equivalents, of which \$522.2 million, or 59.9%, was held outside the U.S. Of the \$522.2 million held by our non-U.S. subsidiaries, approximately \$276.9 million is available for repatriation to the U.S. without incurring U.S. income taxes and applicable non-U.S. income and withholding taxes in excess of the amounts accrued in our consolidated financial statements as of December 31, 2018.

The Company's cash and cash equivalents held in the U.S. and cash provided from operations are sufficient to meet the Company's liquidity needs in the U.S. for the next twelve months. However, in anticipation of the needs of the Company's share repurchase program and the need to provide payment of the Company's provisional Transition Tax liability, the Company may repatriate certain funds held outside the U.S. for which all applicable U.S. and non-U.S. tax has been fully provided as of December 31, 2018. The Company has provided for the tax impact of expected distributions from its joint venture in China as well as from its subsidiary in Chile to its intermediate parent company in Switzerland. Otherwise because of the need for cash for operating capital and continued overseas expansion, the Company does not foresee the need for any of its other foreign subsidiaries to distribute funds up to an intermediate foreign parent company in any form of taxable dividend. Under current applicable tax laws, if the Company chooses to repatriate some or all of the funds the Company has designated as indefinitely reinvested outside the U.S., the amount repatriated would not be subject to income taxes but may be subject to applicable non-U.S. income and withholding taxes, and to certain state income taxes.

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

	2018	2017	2016
Expected income tax expense	\$ 90,696	\$ 134,491	\$ 125,819
State income tax, net of federal benefit	3,051	297	2,335
Rate differential on foreign income	(40,065)	(95,565)	(58,508)
Change in unrecognized tax benefits	820	1,449	135
Non-deductible compensation	6,269	6,592	4,414
Tax credits	(2,539)	(2,151)	(2,044)
Excess tax benefit on share based compensation	(1,557)	(2,571)	—
U.S. tax rate change	—	1,923	—
U.S. transition tax	(10,963)	98,015	—
U.S. tax on foreign earnings	9,956	—	—
Other	2,077	(1,110)	535
Change in valuation allowance	2,866	7,786	1,439
Total provision (benefit) for income taxes	<u>\$ 60,611</u>	<u>\$ 149,156</u>	<u>\$ 74,125</u>
Effective tax rate	14.0%	38.8%	20.6%

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2018 and 2017 are presented below (in thousands):

	2018	2017
Deferred tax assets:		
Inventory adjustments	\$ 5,779	\$ 5,375
Accrued expenses	42,637	33,983
Allowances for bad debts and chargebacks	3,549	3,470
Loss carryforwards	24,834	24,308
Business credit carryforward	7,015	6,562
Share-based compensation	4,283	4,154
Valuation allowance	(30,179)	(27,313)
Total deferred tax assets	<u>57,918</u>	<u>50,539</u>
Deferred tax liabilities:		
Prepaid expenses	6,263	5,709
Depreciation on property, plant and equipment	12,674	15,069
Total deferred tax liabilities	<u>18,937</u>	<u>20,778</u>
Net deferred tax assets	<u>\$ 38,981</u>	<u>\$ 29,761</u>

The \$2.9 million increase in the valuation allowance primarily relates to increases in deferred tax assets in certain foreign non-benefited loss jurisdictions as discussed above. The Company believes it is more likely than not that the results of future operations in the remaining jurisdictions will generate sufficient taxable income to realize its net deferred tax assets.

State tax credit and net operating loss carry-forward amounts remaining as of December 31, 2018 were \$8.9 million and \$31.1 million, respectively. State tax credit and net operating loss carry-forward amounts remaining as of December 31, 2017 were \$6.6 million and \$31.3 million, respectively. These tax credit and net operating loss carry-forward amounts do not begin to expire until 2032 and 2025, respectively. As of December 31, 2018 and 2017, no valuation allowance against the related deferred tax asset have been recorded for these credit and loss carry-forwards as it is believed the carry-forwards will be fully utilized in reducing future taxable income.

As of December 31, 2018 and 2017, the Company had combined foreign net operating loss carry-forwards available to reduce future taxable income of approximately \$121.5 million and \$94.9 million, respectively. Some of these net operating losses expire beginning in 2019; however others can be carried forward indefinitely. As of December 31, 2018 and 2017, valuation allowances of \$21.4 million and \$21.4 million, respectively, had been recorded against the related deferred tax assets for those loss carry-forwards that are not more likely than not to be fully utilized in reducing future taxable income.

The balance of unrecognized tax benefits included in prepaid expenses in the consolidated balance sheets increased by \$0.6 million during the year. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	2018	2017
Beginning balance	\$ 7,381	\$ 6,608
Additions for current year tax positions	1,161	1,154
Reductions for prior year tax positions	(55)	(26)
Reductions related to lapse of statute of limitations	(512)	(355)
Ending balance	<u>\$ 7,975</u>	<u>\$ 7,381</u>

If recognized, \$8.0 million of unrecognized tax benefits would be recorded as a reduction in income tax expense.

Estimated interest and penalties related to the underpayment of income taxes are classified as a component of income tax expense and totaled \$0.2 million, \$0.5 million, and \$0.4 million for the years ended December 31, 2018, 2017, and 2016, respectively. Accrued interest and penalties were \$1.8 million and \$1.5 million as of December 31, 2018 and 2017, respectively.

The amount of income taxes the Company pays is subject to ongoing audits by taxing jurisdictions around the world. The Company's estimate of the potential outcome of any uncertain tax position is subject to its assessment of relevant risks, facts, and circumstances existing at that time. The Company believes that it has adequately provided for these matters. However, the Company's future results may include favorable or unfavorable adjustments to its estimates in the period the audits are resolved, which may impact the Company's effective tax rate.

As of December 31, 2018, the Company's tax filings are generally subject to examination in the U.S. and most foreign jurisdictions for years ending on or after December 31, 2014, and in several Asian and European tax jurisdictions for years ending on or after December 31, 2008. During the year, the Company reduced the balance of 2018 and prior year unrecognized tax benefits by \$0.5 million as a result of expiring statutes. It is reasonably possible that certain domestic and foreign statutes will expire during the next twelve months which would reduce the balance of 2018 and prior year unrecognized tax benefits by \$0.8 million.

The Company is currently under examination by a number of states and certain foreign jurisdictions. During the year ended December 31, 2018, there was no reduction in the balance of 2018 and prior year unrecognized tax benefits due to settlements of examinations. It is reasonably possible that certain federal, state and foreign examinations could be settled during the next twelve months which would reduce the balance of 2018 and prior year unrecognized tax benefits by \$0.9 million.

(16) EMPLOYEE BENEFIT PLAN

The Company has a 401(k) profit sharing plan covering all employees who are 21 years of age and have completed six months of service. Employees may contribute up to 15.0% of annual compensation. Company contributions to the plan are discretionary and vest over a six year period. The Company made a contribution of \$2.3 million and \$1.6 million to the plan for the year ended December 31, 2018 and 2017 respectively. The Company did not make a contribution to the plan for the years ended December 31 2016.

In May 2013, the Company established the Skechers U.S.A., Inc. Deferred Compensation Plan (the “Plan”), which allows eligible employees to defer compensation up to a maximum amount to a future date on a nonqualified basis. The Plan provides for the Company to make discretionary contributions to participating employees, which will be determined by the Company’s Compensation Committee. The Company made a contribution of \$0.1 million and \$0.2 million to the plan for the year ended December 31, 2018 and 2017 respectively. The Company did not make a contribution to the plan for the year ended December 31 2016. The value of the deferred compensation is recognized based on the fair value of the participants’ accounts as determined monthly. The Company has established a rabbi trust (the “Trust”) as a reserve for the benefits payable under the Plan. The assets of the Trust and deferred liabilities are presented in the Company’s consolidated balance sheets.

(17) BUSINESS AND CREDIT CONCENTRATIONS

The Company generates a significant portion of its sales in the United States; however, several of its products are sold into various foreign countries, which subject the Company to the risks of doing business abroad. In addition, the Company operates in the footwear industry, which is impacted by the general economy, and its business depends on the general economic environment and levels of consumer spending. Changes in the marketplace may significantly affect the Company’s estimates and its performance. The Company 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, amounted to \$213.7 million and \$206.1 million before allowances for bad debts and sales returns, and chargebacks at December 31, 2018 and 2017, respectively. Foreign accounts receivable, which are generally collateralized by letters of credit, amounted to \$313.8 million and \$251.0 million before allowance for bad debts, sales returns, and chargebacks at December 31, 2018 and 2017, respectively. International net sales amounted to \$2.514 billion, \$2.109 billion and \$1.640 billion for the years ended December 31, 2018, 2017 and 2016, respectively. The Company’s credit losses charged to expense for the years ended December 31, 2018, 2017 and 2016 were \$8.0 million, \$12.8 million and \$12.7 million, respectively. In addition, the Company recorded sales return expense for the years ended December 31, 2018, 2017 and 2016 were \$20.2 million, \$5.6 million and \$16.9 million, respectively.

Assets located outside the United States consist primarily of cash, accounts receivable, inventory, property, plant and equipment, and other assets. Net assets held outside the United States were \$1.611 billion and \$1.273 billion at December 31, 2018 and 2017, respectively.

During 2018, 2017 and 2016, no customer accounted for 10.0% or more of net sales. No customer accounted for more than 10% of net trade receivables at December 31, 2018 or 2017. During 2018, 2017 and 2016, net sales to the five largest customers were approximately 10.4%, 10.5% and 11.3%, respectively.

The Company’s top five manufacturers produced the following for the years ended December 31, 2018, 2017 and 2016, respectively:

	Percentage of Total Production Years Ended December 31,		
	2018	2017	2016
Manufacturer #1	12.8 %	17.9 %	22.9 %
Manufacturer #2	10.1 %	11.1 %	10.1 %
Manufacturer #3	8.6 %	8.8 %	8.8 %
Manufacturer #4	5.4 %	5.4 %	4.9 %
Manufacturer #5	5.0 %	4.3 %	4.3 %
	<u>41.9 %</u>	<u>47.5 %</u>	<u>51.0 %</u>

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

(18) RELATED PARTY TRANSACTIONS

The Company paid approximately \$80,000, \$172,000, and \$111,000 during 2018, 2017 and 2016, respectively, to the Manhattan Inn Operating Company, LLC (“MIOC”) for lodging, food and events, which is owned and operated by MIOC. Michael Greenberg, President and a director of the Company, owns a 12% beneficial ownership interest in MIOC, and three other officers, directors and senior vice presidents of the Company own in aggregate an additional 5% beneficial ownership in MIOC. The Company had no outstanding accounts receivable or payable with MIOC, the Shade Hotel in Manhattan Beach at December 31, 2018 or 2017.

The Company paid approximately \$167,000, \$201,000 and \$110,000 during 2018, 2017 and 2016 to the Redondo Beach Hospitality Company, LLC (“RBHC”) for lodging, food and events, including the Company’s 2018, 2017 and 2016 holiday party at the Shade Hotel in Redondo Beach, which is owned and operated by RBHC. Michael Greenberg, President and a director of the Company, owns a 5% beneficial ownership interest in RBHC, and three other officers, directors and senior vice presidents of the Company own in aggregate an additional 3% beneficial ownership in RBHC. The Company had no outstanding accounts receivable or payable with RBHC or the Shade Hotel in Redondo Beach, at December 31, 2018 or 2017.

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 are also officers and directors of the Foundation. During the years ended December 31, 2018, 2017, and 2016 the Company made contributions of \$1,000,000 million to the Foundation in each year.

The Company had receivables from officers and employees of \$0.8 million and \$1.0 million at December 31, 2018 and 2017, respectively. These amounts relate to travel advances, incidental personal purchases on Company-issued credit cards and employee loans. These receivables are short-term and are expected to be repaid within a reasonable period of time. The Company had no other significant transactions with or payables to officers, directors or significant stockholders of the Company.

(19) SEGMENT AND GEOGRAPHIC REPORTING

The Company has three reportable segments—domestic wholesale sales, international wholesale sales, and retail sales, which includes e-commerce sales. Management evaluates segment performance based primarily on net sales and gross margins. 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 and identifiable assets for the domestic wholesale, international wholesale, and retail segments on a combined basis were as follows (in thousands):

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net sales			
Domestic wholesale	\$ 1,259,615	\$ 1,249,287	\$ 1,199,832
International wholesale	2,054,770	1,729,906	1,391,235
Retail	1,327,683	1,184,967	972,244
Total	<u>\$ 4,642,068</u>	<u>\$ 4,164,160</u>	<u>\$ 3,563,311</u>

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Gross profit			
Domestic wholesale	\$ 468,340	\$ 464,609	\$ 454,088
International wholesale	976,739	786,675	616,110
Retail	778,526	687,605	564,398
Total	<u>\$ 2,223,605</u>	<u>\$ 1,938,889</u>	<u>\$ 1,634,596</u>

	<u>2018</u>	<u>2017</u>
Identifiable assets		
Domestic wholesale	\$ 1,428,463	\$ 1,259,119
International wholesale	1,423,048	1,116,928
Retail	376,744	359,035
Total	<u>\$ 3,228,255</u>	<u>\$ 2,735,082</u>

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Additions to property, plant and equipment			
Domestic wholesale	\$ 29,717	\$ 20,055	\$ 33,677
International wholesale	63,316	47,410	44,286
Retail	50,003	68,511	41,508
Total	<u>\$ 143,036</u>	<u>\$ 135,976</u>	<u>\$ 119,471</u>

Geographic Information

The following summarizes the Company's operations in different geographic areas as of and for the years ended December 31:

	2018	2017	2016
Net Sales (1)			
United States	\$ 2,128,100	\$ 2,055,475	\$ 1,920,051
Canada	171,864	160,367	130,555
Other international (2)	2,342,104	1,948,318	1,512,705
Total	<u>\$ 4,642,068</u>	<u>\$ 4,164,160</u>	<u>\$ 3,563,311</u>

	2018	2017
Property, plant and equipment, net		
United States	\$ 385,584	\$ 382,426
Canada	9,081	9,888
Other international (2)	190,792	149,287
Total	<u>\$ 585,457</u>	<u>\$ 541,601</u>

- (1) The Company has subsidiaries in Asia, Central America, Europe, the Middle East, North America, and South America that generate net sales within those respective countries and in some cases the neighboring regions. The Company has joint ventures in Asia that generate net sales from those countries. The Company also has a subsidiary in Switzerland that generates net sales from that country in addition to net sales to distributors located in numerous non-European countries. 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 consolidated financial statements and are not included as part of the external net sales reported in different geographic areas.
- (2) Other international consists of Asia, Central America, Europe, the Middle East, 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.

(20) SUBSEQUENT EVENTS

The Company has evaluated events subsequent to December 31, 2018, to assess the need for potential recognition or disclosure in this filing. Based on this evaluation, it was determined that no subsequent events occurred that require recognition in the consolidated financial statements. In 2019, the Company entered into an agreement to purchase the minority interest in its India joint venture that it did not own for \$82.5 million which will make India a wholly owned subsidiary. In 2019, the Company also agreed in principle to form a joint venture with its distributor in Mexico.

(21) SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The Company believes that the following information reflects all normal recurring adjustments necessary for a fair presentation of the financial information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period. Summarized unaudited financial data are as follows (in thousands, except per share data):

2018	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
Net sales	\$ 1,250,078	\$ 1,134,797	\$ 1,176,395	\$ 1,080,798
Gross profit	583,104	560,957	563,866	515,678
Net earnings	137,258	60,859	106,051	67,105
Net earnings attributable to Skechers U.S.A., Inc.	117,652	45,284	90,728	47,377
Net earnings per share:				
Basic	0.21	0.29	0.58	0.31
Diluted	0.21	0.29	0.58	0.31

<u>2017</u>	<u>MARCH 31</u>	<u>JUNE 30</u>	<u>SEPTEMBER 30</u>	<u>DECEMBER 31(1)</u>
Net sales	\$ 1,072,808	\$ 1,025,934	\$ 1,094,829	\$ 970,589
Gross profit	476,498	488,321	519,987	454,083
Net earnings (loss)	106,635	73,400	106,830	(51,761)
Net earnings (loss) attributable to Skechers U.S.A., Inc.	93,995	59,535	92,310	(66,650)
Net earnings (loss) per share:				
Basic	0.61	0.38	0.59	(0.43)
Diluted	0.60	0.38	0.59	(0.43)

(1) Fourth quarter 2017 net earnings (loss) includes a provisional one-time tax expense of \$99.9 million recorded for our initial analysis of the impact of the Tax Act.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Attached as exhibits to this annual report on Form 10-K are certifications of our Chief Executive Officer (“CEO”) 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 maintain 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 allow timely decisions regarding required disclosures. As of the end of the period covered by this annual report on Form 10-K, we carried out an evaluation under the supervision and with the participation of our management, including our CEO and CFO, of 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.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

With the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2018, based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the framework in *Internal Control – Integrated Framework (2013)*, our management has concluded that our internal control over financial reporting is effective as of such time.

Our independent registered public accountants, BDO USA, LLP, audited the consolidated financial statements included in this annual report on Form 10-K and have issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2018, which is set forth below.

INHERENT LIMITATIONS ON EFFECTIVENESS OF CONTROLS

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors 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 due 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.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes to our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting during the fourth quarter of 2018. The results of our evaluation are discussed above in Management's Report on Internal Control Over Financial Reporting.

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Skechers U.S.A., Inc.
Manhattan Beach, California

Opinion on Internal Control over Financial Reporting

We have audited Skechers U.S.A., Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of earnings, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and schedule and our report dated March 1, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

Los Angeles, California

March 1, 2019

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2018 fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2018 fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2018 fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2018 fiscal year.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 is hereby incorporated by reference from our definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of our 2018 fiscal year.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1. Financial Statements: See “Index to Consolidated Financial Statements and Financial Statement Schedule” in Part II, Item 8 on page 47 of this annual report on Form 10-K.
2. Financial Statement Schedule: See “Schedule II—Valuation and Qualifying Accounts” on page 80 of this annual report on Form 10-K.
3. Exhibits: The exhibits listed in the accompanying “Index to Exhibits” are filed or incorporated by reference as part of this Form 10-K.

ITEM 16. FORM 10-K SUMMARY

None.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

Years Ended December 31, 2018, 2017, and 2016

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	CHARGED TO REVENUE COSTS AND EXPENSES	DEDUCTIONS AND WRITE-OFFS	BALANCE AT END OF YEAR
Year-ended December 31, 2016				
Allowance for chargebacks	\$ 7,065	\$ 10,882	\$ (6,973)	\$ 10,974
Allowance for doubtful accounts	5,953	1,837	(2,170)	5,620
Liability for sales returns and allowances	11,242	18,101	(4,290)	25,053
Reserve for shrinkage	407	2,396	(2,261)	542
Reserve for obsolescence	3,281	15,220	(7,573)	10,928
Year-ended December 31, 2017				
Allowance for chargebacks	\$ 10,974	\$ 7,507	\$ (5,674)	\$ 12,807
Allowance for doubtful accounts	5,620	5,266	(3,177)	7,709
Liability for sales returns and allowances	25,053	5,625	(14)	30,664
Reserve for shrinkage	542	2,020	(825)	1,737
Reserve for obsolescence	10,928	130	(4,039)	7,019
Year-ended December 31, 2018				
Allowance for chargebacks	\$ 12,807	\$ 12,629	\$ (6,663)	\$ 18,773
Allowance for doubtful accounts	7,709	2,856	(3,722)	6,843
Liability for sales returns and allowances	30,664	20,245	(2,443)	48,466
Reserve for shrinkage	1,737	5,771	(5,891)	1,617
Reserve for obsolescence	7,019	6,461	(2,344)	11,136

See accompanying report of independent registered public accounting firm

INDEX TO EXHIBITS

<u>EXHIBIT NUMBER</u>	<u>DESCRIPTION OF EXHIBIT</u>
3.1	<u>Amended and Restated Certificate of Incorporation dated April 29, 1999 (incorporated by reference to exhibit number 3.1 of the Registrant's Form 10-Q for the quarter ended September 30, 2015).</u>
3.1(a)	<u>Amendment to Amended and Restated Certificate of Incorporation dated September 24, 2015 (incorporated by reference to exhibit number 3.2 of the Registrant's Form 10-Q for the quarter ended September 30, 2015).</u>
3.2	<u>Bylaws dated May 28, 1998 (incorporated by reference to exhibit number 3.2 of the Registrant's Registration Statement on Form S-1 (File No. 333-60065) filed with the Securities and Exchange Commission on July 29, 1998).</u>
3.2(a)	<u>Amendment to Bylaws dated as of April 8, 1999 (incorporated by reference to exhibit number 3.2(a) of the Registrant's Form 10-K for the year ended December 31, 2005).</u>
3.2(b)	<u>Second Amendment to Bylaws dated as of December 18, 2007 (incorporated by reference to exhibit number 3.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on December 20, 2007).</u>
4.1	<u>Form of Specimen Class A Common Stock Certificate (incorporated by reference to exhibit number 4.1 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on May 12, 1999).</u>
10.1*	<u>Skechers U.S.A., Inc. Deferred Compensation Plan (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 3, 2013).</u>
10.2*	<u>2006 Annual Incentive Compensation Plan (incorporated by reference to Appendix A of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 29, 2016).</u>
10.2(a)*	<u>First Amendment to the 2006 Annual Incentive Compensation Plan (incorporated by reference to Appendix B of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 29, 2016).</u>
10.3*	<u>2007 Incentive Award Plan (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 24, 2007).</u>
10.4*	<u>Form of Restricted Stock Agreement under 2007 Incentive Award Plan (incorporated by reference to exhibit number 10.3 of the Registrant's Form 10-K for the year ended December 31, 2007).</u>
10.5*	<u>2017 Incentive Award Plan (incorporated by reference to Appendix A of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on May 1, 2017).</u>
10.6*	<u>Form of Restricted Stock Agreement under 2017 Incentive Award Plan. (incorporated by reference to exhibit number 10.6 of the Registrant's Form 10-K for the year ended December 31, 2017).</u>
10.7*	<u>2018 Employee Stock Purchase Plan (incorporated by reference to Appendix B of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on May 1, 2017).</u>
10.8*	<u>Indemnification Agreement dated June 7, 1999 between the Registrant and its directors and executive officers (incorporated by reference to exhibit number 10.6 of the Registrant's Form 10-K for the year ended December 31, 1999).</u>

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
10.8(a)*	<u>List of Registrant's directors and executive officers who entered into Indemnification Agreement referenced in Exhibit 10.6 with the Registrant (incorporated by reference to exhibit number 10.6(a) of the Registrant's Form 10-K for the year ended December 31, 2005).</u>
10.9	<u>Registration Rights Agreement dated June 9, 1999, between the Registrant, the Greenberg Family Trust and Michael Greenberg (incorporated by reference to exhibit number 10.7 of the Registrant's Form 10-Q for the quarter ended June 30, 1999).</u>
10.10	<u>Tax Indemnification Agreement dated June 8, 1999, between the Registrant and certain shareholders (incorporated by reference to exhibit number 10.8 of the Registrant's Form 10-Q for the quarter ended June 30, 1999).</u>
10.11*	<u>Employment Agreement, executed August 7, 2015, effective as of January 1, 2015, between the Registrant and Michael Greenberg (incorporated by reference to exhibit number 10.5 of the Registrant's Form 10-Q for the quarter ended June 30, 2015).</u>
10.11(a)*	<u>Amendment to Employee Agreement dated December 5, 2017, between the Registrant and Michael Greenberg (incorporated by reference to exhibit 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on December 8, 2017)</u>
10.12*	<u>Employment Agreement, executed April 2, 2018, effective as of January 1, 2018, between the Registrant and David Weinberg (incorporated by reference to exhibit 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on April 2, 2018).</u>
10.13	<u>Credit Agreement dated June 30, 2015, by and among the Registrant, certain of its subsidiaries who are also borrowers under the Agreement, certain of its subsidiaries who are guarantors under the Agreement, and Bank of America, N.A., MUFG Union Bank, N.A. and HSBC Bank USA, National Association (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on July 7, 2015).</u>
10.14	<u>Amended and Restated Limited Liability Company Agreement dated April 12, 2010 between Skechers R.B., LLC, a Delaware limited liability company and wholly owned subsidiary of the Registrant, and HF Logistics I, LLC, regarding the ownership and management of the joint venture, HF Logistics-SKX, LLC, a Delaware limited liability company (incorporated by reference to exhibit number 10.11 of the Registrant's Form 10-K for the year ended December 31, 2011).</u>
10.14(a)	<u>First Amendment to Amended and Restated Limited Liability Company Agreement dated August 11, 2015 by and between Skechers R.B., LLC, a Delaware limited liability company and wholly owned subsidiary of the Registrant, and HF Logistics I, LLC, regarding the ownership and management of the joint venture, HF Logistics-SKX, LLC, a Delaware limited liability company (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on August 17, 2015).</u>
10.14(b)	<u>Second Amendment to Amended and Restated Limited Liability Company Agreement dated February 12, 2019 by and between Skechers R.B., LLC, a Delaware limited liability company and wholly owned subsidiary of the Registrant, and HF Logistics I, LLC, regarding the ownership and management of the joint venture, HF Logistics-SKX, LLC, a Delaware limited liability company.</u>
10.15	<u>Amended and Restated Loan Agreement dated as of August 12, 2015, by and among HF Logistics-SKX T1, LLC, which is a wholly owned subsidiary of a joint venture entered into between HF Logistics I, LLC, and Skechers R.B., LLC, a Delaware limited liability company and wholly owned subsidiary of the Registrant, Bank of America, N.A., as administrative agent and as a lender, and CIT Bank, N.A. and Raymond James Bank, N.A., as lenders (incorporated by reference to exhibit number 10.2 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on August 17, 2015).</u>
10.16	<u>Lease Agreement dated September 25, 2007 between the Registrant and HF Logistics I, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on September 27, 2007).</u>
10.16(a)	<u>First Amendment to Lease Agreement, dated December 18, 2009, between the Registrant and HF Logistics I, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.6 of the Registrant's Form 10-Q for the quarter ended March 31, 2010).</u>
10.16(b)	<u>Second Amendment to Lease Agreement, dated April 12, 2010, between the Registrant and HF Logistics I, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.4 of the Registrant's Form 10-Q for the quarter ended September 30, 2010).</u>

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
10.16(c)	<u>Assignment of Lease Agreement, dated April 12, 2010, between HF Logistics I, LLC and HF Logistics-SKX T1, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.5 of the Registrant's Form 10-Q for the quarter ended September 30, 2010).</u>
10.16(d)	<u>Third Amendment to Lease Agreement, dated August 18, 2010, between the Registrant and HF Logistics-SKX T1, LLC, regarding distribution facility in Rancho Belago, California (incorporated by reference to exhibit number 10.6 of the Registrant's Form 10-Q for the quarter ended September 30, 2010).</u>
10.16(e)	<u>Fourth Amendment to Lease Agreement, dated February 12, 2019, between the Registrant and HF Logistics-SKX T1, LLC, regarding distribution facility in Rancho Belago, California</u>
10.17	<u>Lease Agreement, dated February 12, 2019, between the Registrant and HF Logistics – SKX T2, LLC, regarding expansion to distribution facility in Rancho Belago, California.</u>
10.18	<u>Lease Agreement, dated August 12, 2002, between Skechers International, a subsidiary of the Registrant, and ProLogis Belgium II SPRL, regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated by reference to exhibit number 10.28 of the Registrant's Form 10-K for the year ended December 31, 2002).</u>
10.18(a)	<u>Addendum to Lease Agreement, dated January 19, 2006, between Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium II SPRL, regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated by reference to exhibit number 10.17(a) of the Registrant's Form 10-K for the year ended December 31, 2015).</u>
10.18(b)	<u>Addendum 2 to Lease Agreement dated May 20, 2008 between Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium II SPRL, regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated by reference to exhibit number 10.2 of the Registrant's Form 8-K filed with Securities and Exchange Commission on May 27, 2008).</u>
10.18(c)	<u>Addendum 3 to Agreement dated June 11, 2013 and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, ProLogis Belgium II BVBA regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated by reference to exhibit number 10.17(c) of the Registrant's Form 10-K for the year ended December 31, 2015).</u>
10.18(d)	<u>Addendum 4 to Agreement dated October 17, 2014 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, ProLogis Belgium II BVBA regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated by reference to exhibit number 10.17(d) of the Registrant's Form 10-K for the year ended December 31, 2015).</u>
10.19	<u>Lease Agreement dated May 20, 2008 between Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium III SPRL, regarding ProLogis Park Liege Distribution Center II in Liege, Belgium (incorporated by reference to exhibit number 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 27, 2008).</u>
10.19(a)	<u>Addendum 1 to Lease Agreement, dated March 10, 2009, between Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium III BVBA, regarding ProLogis Park Liege Distribution Center I in Liege, Belgium (incorporated by reference to exhibit number 10.18(a) of the Registrant's Form 10-K for the year ended December 31, 2015).</u>
10.19(b)	<u>Addendum 2 to Lease Agreement dated December 22, 2009 between Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium III BVBA, regarding ProLogis Park Liege Distribution Center II in Liege, Belgium (incorporated by reference to exhibit number 10.18(b) of the Registrant's Form 10-K for the year ended December 31, 2015).</u>
10.19(c)	<u>Addendum 3 to Agreement dated June 11, 2013 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, ProLogis Belgium III BVBA regarding ProLogis Park Liege Distribution Center II in Liege, Belgium (incorporated by reference to exhibit number 10.18(c) of the Registrant's Form 10-K for the year ended December 31, 2015).</u>
10.19(d)	<u>Addendum 4 to Agreement dated October 17, 2014 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, ProLogis Belgium III BVBA regarding ProLogis Park Liege Distribution Center II in Liege, Belgium (incorporated by reference to exhibit number 10.18(d) of the Registrant's Form 10-K for the year ended December 31, 2015).</u>

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
10.20	<u>Lease Agreement dated October 17, 2014 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium II BVBA, regarding ProLogis Park Liege Distribution Center III in Liege, Belgium (incorporated by reference to exhibit number 10.1 of the Registrant's Form 10-Q for the quarter ended March 31, 2015).</u>
10.20(a)	<u>Addendum to Agreement dated August 3, 2015 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, ProLogis Belgium II BVBA, and ProLogis Belgium III BVBA regarding ProLogis Park Liege Distribution Centers I, II and III in Liege, Belgium (incorporated by reference to exhibit number 10.3 of the Registrant's Form 10-Q for the quarter ended June 30, 2015).</u>
10.21	<u>Lease Agreement dated July 10, 2015 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, and ProLogis Belgium II BVBA, regarding ProLogis Park Liege Distribution Center IV in Liege, Belgium (incorporated by reference to exhibit number 10.2 of the Registrant's Form 10-Q for the quarter ended June 30, 2015).</u>
10.21(a)	<u>Addendum to Agreement dated August 3, 2015 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, ProLogis Belgium II BVBA, and ProLogis Belgium III BVBA regarding ProLogis Park Liege Distribution Center IV in Liege, Belgium (incorporated by reference to exhibit number 10.4 of the Registrant's Form 10-Q for the quarter ended June 30, 2015).</u>
10.22	<u>Lease Agreement dated July 1, 2016 by and among the Registrant, Skechers EDC SPRL, a subsidiary of the Registrant, and Warehouse and Industrial Properties (W.I.P.) SA, regarding Liegistics Park 34, Avenue du Parc Industriel in Milmort, Belgium (incorporated by reference to exhibit number 10.18 of the Registrant's Form 10-K for the year ended December 31, 2016).</u>
10.23	<u>Lease Agreement dated November 17, 2015 by and between the Registrant and Omni Manhattan Towers Limited Partnership, regarding 1240 Rosecrans Avenue, Suites 300 and 400, Manhattan Beach, California (incorporated by reference to exhibit number 10.19 of the Registrant's Form 10-K for the year ended December 31, 2016).</u>
10.24**	<u>China DC Loan Agreement, dated September 29, 2018, between Skechers Taicang Trading and Logistics Co Limited, a wholly owned subsidiary of Skechers China Limited, which is a joint venture of the Registrant, and China Construction Bank Corporation, regarding distribution center in Taicang, China. (Incorporated by reference to exhibit number 10.1 of the Registrant's Form 10-Q (File No.001-14429) for the quarter ended September 30, 2018).</u>
10.25	<u>Mortgage Contract, dated August 28, 2018, between Skechers Taicang Trading and Logistics Co Limited, a wholly owned subsidiary of Skechers China Limited, which is a joint venture of the Registrant, and China Construction Bank Corporation, regarding distribution center in Taicang, China. (Incorporated by reference to exhibit number 10.2 of the Registrant's Form 10-Q (File No.001-14429) for the quarter ended September 30, 2018).</u>
10.26	<u>Guarantee Agreement, dated July 24, 2018, between Skechers Taicang Trading and Logistics Co Limited, a wholly owned subsidiary of Skechers China Limited, which is a joint venture of the Registrant, and China Construction Bank Corporation, regarding distribution center in Taicang, China. (Incorporated by reference to exhibit number 10.3 of the Registrant's Form 10-Q (File No.001-14429) for the quarter ended September 30, 2018).</u>
10.27**	<u>Cooperative Agreement on Close Management of Fixed Asset Loan Project, dated September 29, 2018, between Skechers Taicang Trading and Logistics Co Limited, a wholly owned subsidiary of Skechers China Limited, which is a joint venture of the Registrant, and China Construction Bank Corporation, regarding distribution center in Taicang, China. (Incorporated by reference to exhibit number 10.4 of the Registrant's Form 10-Q (File No.001-14429) for the quarter ended September 30, 2018).</u>
21.1	<u>Subsidiaries of the Registrant.</u>
23.1	<u>Consent of Independent Registered Public Accounting Firm.</u>
31.1	<u>Certification of the Chief Executive Officer pursuant Securities Exchange Act Rule 13a-14(a).</u>
31.2	<u>Certification of the Chief Financial Officer pursuant Securities Exchange Act Rule 13a-14(a).</u>
32.1***	<u>Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	<u>XBRL Instance Document.</u>

<u>EXHIBIT NUMBER</u>	<u>DESCRIPTION OF EXHIBIT</u>
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

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

** The Company applied with the Secretary of the Securities and Exchange Commission for confidential treatment of certain information pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended. The Company filed separately with its application a copy of the exhibit including all confidential portions, which may be made available for public inspection pending the Securities and Exchange Commission's review of the application in accordance with Rule 24b-2.

*** 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 Section 13 or 15(d) 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, in the City of Manhattan Beach, State of California on the 1st day of March 2019.

SKECHERS U.S.A., INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ Robert Greenberg</u> Robert Greenberg	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 1, 2019
<u>/s/ Michael Greenberg</u> Michael Greenberg	President and Director	March 1, 2019
<u>/s/ David Weinberg</u> David Weinberg	Executive Vice President, Chief Operating Officer, and Director	March 1, 2019
<u>/s/ John Vandemore</u> John Vandemore	Chief Financial Officer (Principal Financial and Accounting Officer)	March 1, 2019
<u>/s/ Jeffrey Greenberg</u> Jeffrey Greenberg	Director	March 1, 2019
<u>/s/ Geyer Kosinski</u> Geyer Kosinski	Director	March 1, 2019
<u>/s/ Morton D. Erlich</u> Morton D. Erlich	Director	March 1, 2019
<u>/s/ Richard Siskind</u> Richard Siskind	Director	March 1, 2019
<u>/s/ Thomas Walsh</u> Thomas Walsh	Director	March 1, 2019
<u>/s/ Rick Rappaport</u> Rick Rappaport	Director	March 1, 2019

**SECOND AMENDMENT
TO
AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT
OF
HF LOGISTICS-SKX, LLC**

This Second Amendment to Amended and Restated Limited Liability Company Agreement of HF Logistics-SKX, LLC ("Amendment") is made and entered into this 12th day of February, 2019 by and between HF Logistics I, LLC, a Delaware limited liability company ("HF") and Skechers R.B., LLC, a Delaware limited liability company ("Skechers", and together with HF, the "Members").

RECITALS

A. The Members executed that certain Amended and Restated Limited Liability Company Agreement of HF Logistics-SKX, LLC dated April 12, 2010, but effective as of January 30, 2010 (as amended by a First Amendment dated as of August 11, 2015, the "Existing LLC Agreement").

B. Although the expansion right set forth in the Existing LLC Agreement has lapsed, Skechers Parent has stated its desire to expand into the Expansion Parcel (although the expansion building will contain approximately 750,000 square feet instead of 500,000 square feet, as originally contemplated under the Existing LLC Agreement), and to that end, Skechers Parent and the T2 Subsidiary will be entering into a new lease (the "Expansion Parcel Lease") for the building and other improvements to be constructed on the Expansion Parcel (as defined herein). However, to accomplish the desired expansion, additional land is required beyond the approximately 22.37 acre Expansion Parcel, which is currently owned by the T2 Subsidiary (the "Original Expansion Parcel"). Highland Fairview Partners V, a Delaware general partnership ("HFPV"), which is an Affiliate of HF, owns approximately 12.93 acres of land adjacent to the Original Expansion Parcel (the "Additional Expansion Parcel"), and is willing to contribute the Additional Expansion Parcel to the T2 Subsidiary to enable the expansion to occur. The Original Expansion Parcel and the Additional Expansion Parcel are together referred to herein as the "Expansion Parcel".

C. The Members desire to further amend the Agreement.

NOW, THEREFORE, it is agreed as follows:

1. Concurrently with the execution of this Amendment, and in accordance with the terms and conditions of the Amended T2 LLC Agreement (as defined below):

(a) The Company shall assign its entire Company Interest in the T2 Subsidiary to HF and Skechers, pursuant to an assignment in the form of Exhibit "A" attached hereto;

(b) HF shall cause HFPV to contribute (by grant deed), the Additional Expansion Parcel to the T2 Subsidiary; and

(c) Skechers shall contribute cash in the amount of \$7,000,000 to the T2 Subsidiary.

2. As a condition to the effectiveness of this Amendment, concurrently herewith (a) Skechers Parent and the T2 Subsidiary shall enter into the Expansion Parcel Lease, which shall be in the form of Exhibit "B" attached hereto (and the Sublease referred to therein shall also be executed), (b) Skechers Parent and the Company shall enter into a Fourth Amendment to Lease Agreement in the form

of Exhibit “C” attached hereto, and (c) Skechers, HF and HFPV shall have executed the Amended and Restated Limited Liability Company Agreement of HF Logistics-SKX T2, LLC (the “Amended T2 LLC Agreement”) (and the Development Management Agreement referred to therein shall also be executed) in the form of Exhibit “D” attached hereto.

3. New Section 10.2.4 is hereby added to the Existing LLC Agreement, as follows:

“10.2.4 Partner Representative. The Members shall take all reasonable actions to avoid the application to the Company of the provisions of Section 6221 through 6241 of the Code, as amended by the Bipartisan Budget Act of 2015, including filing all necessary elections to avoid the application of such provisions. If, however, such provisions do apply to the Company, the Tax Matters Partner shall act as the “Partnership Representative” for purposes of Sections 6221 through 6241 of the Code, as so amended.”

4. Section 17.1 of the Existing LLC Agreement is hereby amended by changing the address for notices to HF to read as follows:

“c/o HF Logistics-SKX, LLC
HF Logistics I, LLC
c/o Highland Fairview Properties
14225 Corporate Way
Moreno Valley, California 92553
Attention: Iddo Benzeevi

With Copy To:

Baker & Hostetler LLP
11601 Wilshire Boulevard, Suite 1400
Los Angeles, California 90025-7120
Attention: Bruce R. Greene, Esq.

With Additional Copy To:

James Lieb, Esq.
Executive Vice President
TG Services, Inc.
4 Stage Coach Run
East Brunswick, New Jersey 08816”

5. Skechers hereby releases and discharges HF, and its members, officers, directors, agents and employees, and the heirs, successors and assigns of each of the foregoing, from any and all claims, demands, costs, expenses, lawsuits, actions, causes of action, obligations and liabilities of every nature, known or unknown, which relate to the fact that the Expansion Parcel was not leased to Skechers, and the fact that the Expansion Parcel has not yet been developed and is not producing income, including, but not limited to, those claims made in that certain letter dated September 4, 2018 from Eric V. Rowen, Esq. of Greenberg Traurig LLP (Skechers’ attorney) to HF (including claims for breach of fiduciary duty, or any other claims which Skechers may have which relate to the subject matter of such letter).

In executing and delivering this Amendment (and specifically the release provisions of this Paragraph), Skechers acknowledges it is familiar with the provisions of California Civil Code Section 1542 and expressly agrees to waive the provisions of said statute, which provides:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR."

Skechers acknowledges that it understands the terms of the foregoing release provision and is entering into this Amendment and the release herein freely and voluntarily, without duress or coercion.

6. Capitalized terms used in this Amendment have the same meanings as are set forth in the Existing LLC Agreement, except as provided herein.

7. Except as set forth in this Amendment, the Existing LLC Agreement remains in full force and effect as written.

[Signatures on next page]

IN WITNESS WHEREOF, the Members have executed this Amendment as of the date first above written.

“HF”

“SKECHERS”

HF LOGISTICS I, LLC, a Delaware limited liability company

SKECHERS R.B., LLC, a Delaware limited liability company

By: /s/ Iddo Benzeevi
Iddo Benzeevi, President and Chief Executive Officer

By: Skechers U.S.A., Inc., a Delaware corporation, its sole member

By: /s/ David Weinberg
David Weinberg, Chief Operating Officer

By its signature hereon, Skechers Parent guarantees to HF and the Company, its obligation to fund the \$7,000,000 Additional Capital Contribution of Skechers as set forth in Section 1(c) of this Amendment.

“SKECHERS PARENT”

SKECHERS U.S.A., INC., a Delaware corporation

By: /s/ David Weinberg
David Weinberg, Chief Operating Officer

EXHIBIT "A"

FORM OF ASSIGNMENT

HF Logistics-SKX, LLC, a Delaware limited liability company ("Assignor") hereby assigns and transfers its entire Company Interest (as such term is defined in that certain Amended and Restated Limited Liability Company Agreement of HF Logistics-SKX T2, LLC, a Delaware limited liability company (the "T2 LLC Agreement") as follows:

- (a) 50% to HF Logistics I, LLC, a Delaware limited liability company ("HF"); and
- (b) 50% to Skechers R.B., LLC, a Delaware limited liability company ("Skechers", and together with HF, the "Assignees").

The foregoing assignment includes all right, title and interest in Assignor's Capital Account in HF Logistics-SKX T2, LLC, a Delaware limited liability company ("T2"), all right to receive distributions from T2, and all voting and management rights in T2, all as more fully set forth in the T2 LLC Agreement.

It is agreed that the foregoing Assignment shall be treated as a distribution of property from T2 to Assignees.

Assignees hereby agree that they shall be deemed to be Members of T2 from and after the date of this Assignment, and agree to be bound by and to comply with all provisions of the T2 LLC Agreement relating to the rights and obligations of the Members.

[Signatures on next page]

Executed this ____ day of _____, 2019.

ASSIGNOR:

HF LOGISTICS-SKX, LLC, a Delaware limited liability company

By: HF Logistics I, LLC, a Delaware limited liability company

By: _____
Iddo Benzeevi, President and Chief Executive Officer

By: Skechers R.B., LLC, a Delaware limited liability company

By: Skechers U.S.A., Inc., Delaware corporation, its sole member

By: _____
David Weinberg, Chief Operating Officer

ASSIGNEES:

HF LOGISTICS I, LLC, a Delaware limited liability company

By: _____
Iddo Benzeevi, President and Chief Executive Officer

SKECHERS R.B., LLC, a Delaware limited liability company

By: Skechers U.S.A., Inc., Delaware corporation, its sole member

By: _____
David Weinberg, Chief Operating Officer

EXHIBIT "B"

EXPANSION PARCEL LEASE

THIS LEASE AGREEMENT (the "Lease") is made this ____ day of _____, 2019 (the "Effective Date"), between **HF LOGISTICS-SKX T2, LLC, a Delaware limited liability company** ("Landlord"), and the Tenant named below.

Tenant: Skechers U.S.A., Inc., a Delaware corporation

Tenant's Representative: Paul Galliher

Address and Phone: 228 Manhattan Beach Blvd.
Manhattan Beach, CA 90266
Telephone:(909) 390-1619

Building: That certain Building, containing approximately 750,000 net rentable square feet, to be constructed by Landlord in accordance with the provisions of this Lease.

Project: Highland Fairview Corporate Park

Premises: The Building, together with the parking areas, landscaped areas and other areas consisting of approximately 35.30 acres of land situated in Moreno Valley, California, as shown on the Site Plan attached hereto as Exhibit "A", and consisting of Parcel 2 and Parcel 3 of Parcel Map No. 35629 (APN's: 488-350-031 and 035, and 488-350-027, 032 and 036).

Possession: If construction has not commenced within eighteen (18) months after the Effective Date, for any reason other than a default hereunder by Tenant, then Tenant may terminate this Lease by notice to Landlord within thirty (30) days after the end of such eighteen (18) month period (unless construction is commenced within such thirty (30) day period, in which case this Lease shall not be terminated). Upon termination, any prepaid Base Rent and Estimated Operating Expense Payments made by Tenant shall be promptly returned to Tenant, and neither party shall have any further rights or obligations under this Lease, except for those rights and obligations which expressly survive termination of the Lease as set forth herein.

Lease Term: Beginning on the Commencement Date and ending on the last day of the 180th full calendar month thereafter (the "Termination Date").

Commencement Date: The earlier of (a) 30 days after the date of Substantial Completion of the Premises or (b) the date Tenant shall commence its business operations in the Premises. The parties agree to execute a written instrument which confirms the Commencement Date and the Termination Date promptly after such dates have been determined.

Monthly Base Rent:	See Addendum 1
Expense Payments (estimates only and subject to adjustment to actual costs and expenses according to the provisions of this Lease)	Operating Expenses\$10,588 Taxes\$73,333 Insurance\$24,044 Total: <u>\$107,965</u>
Initial Monthly Base Rent and Estimated	
Operating Expense Payments:	\$565,465
Security Deposit:	None
Broker:	None
Addenda:	1. Base Rent 2. Construction 3. Miscellaneous Provisions
Exhibits:	A - Site Plan B - Building Design Criteria C - Form of Highland Fairview Sublease

1. **Granting Clause.** In consideration of the obligation of Tenant to pay rent as herein provided and in consideration of the other terms, covenants, and conditions hereof, Landlord leases to Tenant, and Tenant takes from Landlord, the Premises, to have and to hold for the Lease Term, subject to the terms, covenants and conditions of this Lease.

2. **Acceptance of Premises.** Except as otherwise set forth in the Lease, Tenant shall accept the Premises in its condition as of the Commencement Date, subject to all applicable laws, ordinances, regulations, covenants and restrictions. Landlord has made no representation or warranty as to the suitability of the Premises for the conduct of Tenant's business, and Tenant waives any implied warranty that the Premises are suitable for Tenant's intended purposes. Except as otherwise set forth in the Lease, in no event shall Landlord have any obligation for any defects in the Premises or any limitation on its use. The taking of possession of the Premises shall be conclusive evidence that Tenant accepts the Premises and that the Premises were in good condition at the time possession was taken except for items that are Landlord's responsibility under the Lease and any punchlist items agreed to in writing by Landlord and Tenant. Notwithstanding anything to the contrary set forth herein, Landlord represents and warrants that as of the Commencement Date (i) the structural integrity of the Premises, including without limitation, the foundation, roof, and any load bearing or retaining walls, is free from any material latent or patent defects, (ii) Landlord is currently not the subject of any bankruptcy or insolvency proceeding, (iii) the Premises shall be in compliance with all Legal Requirements (hereinafter defined) in effect as of the Commencement Date of this Lease, (iv) Landlord has full power, right and authority to execute and perform this Lease and all limited liability company action necessary to do so has been duly taken, and (v) there are no covenants, conditions, restrictions or agreements in existence which are not part of the public records which will adversely affect the permitted use of the Premises. If any of the foregoing representations or warranties are inaccurate, Landlord shall, promptly after receipt of written notice from Tenant setting forth with specificity the nature and extent of such inaccuracy, rectify the same at Landlord's expense.

3. **Use.** The Premises shall be used only for the purpose of receiving, storing, packaging, shipping and selling (but limited to wholesale sales) products, materials and merchandise made and/or distributed by Tenant and for such other lawful purposes as may be incidental thereto; provided, however, with Landlord's prior written consent, and provided that such use is permissible under applicable zoning and other Legal Requirements. Tenant may also use the Premises for light manufacturing. Tenant shall not conduct or give notice of any auction, liquidation, or going out of business sale on the Premises, without Landlord's prior written consent which shall not be unreasonably withheld, conditioned or delayed. Tenant will use the Premises in a careful, safe and proper manner and will not commit waste, overload the floor or structure of the Premises or subject the Premises to use that would damage the Premises. Tenant shall not permit any objectionable or unpleasant odors, smoke, dust, gas, noise, or vibrations to emanate from the Premises, or take any other action that would constitute a nuisance or would disturb, unreasonably interfere with, or endanger Landlord or any tenants of the Project. For purposes of the preceding sentence, noise or vibrations from Tenant's material handling system shall not be considered "objectionable" by Landlord. Outside storage, including without limitation, storage of non-operable trucks and other non-operable vehicles, is prohibited without Landlord's prior written consent; provided, however, that subject to applicable Legal Requirements, Tenant shall be permitted to park trucks and trailers used in Tenant's business operations on and from the Premises overnight at the truck docks of the Premises and Tenant's customers shall be permitted to park their vehicles overnight from time to time in the parking areas of the Premises, provided such customer's vehicles and such trucks and trailers are at all times in operable condition and there is no interference with the ingress and egress of the Project. Except as otherwise set forth in the Lease, Tenant, at its sole expense, shall use and occupy the Premises in compliance with all laws, including, without limitation, the Americans With Disabilities Act, orders, judgments, ordinances, regulations, codes, directives, permits, licenses, covenants and restrictions now or hereafter applicable to the Premises (collectively, "Legal Requirements"). Tenant shall, at its

expense, make any alterations or modifications, within or without the Premises, that are required by Legal Requirements related to Tenant's specific use or occupation of the Premises. Tenant will not use or permit the Premises to be used for any purpose or in any manner that would void Tenant's or Landlord's insurance, increase the insurance risk, or cause the disallowance of any sprinkler credits. If any increase in the cost of any insurance on the Premises or the Project is caused by Tenant's use or occupation of the Premises, or because Tenant vacates the Premises, then Tenant shall pay the amount of such increase to Landlord. Any occupation of the Premises by Tenant prior to the Commencement Date shall be subject to all obligations of Tenant under this Lease.

Notwithstanding anything contained herein to the contrary, Tenant's obligations hereunder shall relate only to the interior of the Premises and any changes to the Premises or the Building that relate solely to the specific manner of use of the Premises by Tenant, and Landlord shall make all other additions to or modifications of the Premises required from time to time by Legal Requirements. The cost of such additions or modifications made by Landlord shall be included in Operating Expenses pursuant to Paragraph 6 of this Lease, except for those additions or modifications which are Landlord's sole responsibility pursuant to the provisions of this Lease.

Landlord represents that the improvements constructed or installed by Landlord pursuant to the Construction Addendum attached to this Lease shall comply in all material respects with all applicable covenants or restrictions of record and all applicable laws, building codes, regulations and ordinances in effect on the Commencement Date of this Lease.

4. **Rent.** Tenant shall pay Base Rent in the amount set forth above. The first month's Base Rent (estimated at \$457,500) and the first monthly installment of estimated Operating Expenses (as hereafter defined) shall be due and payable on the Effective Date, and Tenant promises to pay to Landlord in advance, without demand, deduction or set-off, monthly installments of Base Rent on or before the first day of each calendar month succeeding the Commencement Date. Payments of Base Rent for any fractional calendar month shall be prorated. All payments required to be made by Tenant to Landlord hereunder shall be payable at such address as Landlord may specify from time to time by written notice delivered in accordance herewith. The obligation of Tenant to pay Base Rent and other sums to Landlord and the obligations of Landlord under this Lease are independent obligations. Tenant shall have no right at any time to abate, reduce, or set-off any rent due hereunder except as may be expressly provided in this Lease. If Tenant is delinquent in any monthly installment of Base Rent or estimated Operating Expenses for more than 10 days, Tenant shall pay to Landlord on demand a late charge equal to 5 percent of such delinquent sum. The provision for such late charge shall be in addition to all of Landlord's other rights and remedies hereunder or at law and shall not be construed as a penalty.

5. **Security Deposit.** Intentionally Omitted.

6. **Operating Expense Payments.** During each month of the Lease Term, on the same date that Base Rent is due, Tenant shall pay Landlord an amount equal to 1/12 of the annual cost, as estimated by Landlord from time to time, of the Operating Expenses for the Premises. Payments thereof for any fractional calendar month shall be prorated. The term "Operating Expenses" means all costs and expenses incurred by Landlord with respect to the ownership, maintenance, and operation of the Premises including, but not limited to costs of: Taxes (hereinafter defined) and fees payable to tax consultants and attorneys for consultation and contesting taxes; insurance; maintenance, repair and replacement of the Premises, including without limitation, paving and parking areas, non-structural areas of the roof (including the roof membrane), alleys, and driveways, mowing, landscaping, exterior painting, amounts paid to contractors and subcontractors for work or services performed in connection with any of the foregoing; charges or assessments of any association to which the Premises is, or may in the future be, subject to; property management fees payable to an independent property manager, but excluding

property management fees paid to Landlord or any affiliate of Landlord; security services, if any; trash collection, sweeping and removal; and additions or alterations made by Landlord to the Premises in order to comply with Legal Requirements enacted after the Commencement Date (other than those expressly required herein to be made by and paid for exclusively by Tenant or Landlord) or that are appropriate to the continued operation of the Premises as a warehouse and distribution facility in the market area. The cost of additions or alterations or repairs that are required to be capitalized for federal income tax purposes shall be amortized on a straight line basis over a period equal to the useful life thereof for federal income tax purposes. Operating Expenses do not include amortization for capital repairs and capital replacements required to be made by Landlord under Paragraph 10 of this Lease, costs of Restoration to the extent of Net Proceeds received by Landlord with respect thereto, or leasing commissions. Further, Operating Expenses shall not mean or include: (i) costs incurred in connection with the initial construction of the Premises, or correction of defects in design or construction; (ii) interest, principal, or other payments on account of any indebtedness that is secured by any encumbrance on any part of the Premises, or rental or other payments under any ground lease, or any payments in the nature of returns on or of equity of any kind; (iii) costs of selling, syndicating, financing, mortgaging or hypothecating any part of or interest in the Premises; (iv) taxes on the income of Landlord or Landlord's franchise taxes (unless any of said taxes are hereafter instituted by applicable taxing authorities in substitution for ad valorem real property taxes); (v) depreciation; (vi) Landlord's overhead costs, including equipment, supplies, accounting and legal fees, rent and other occupancy costs or any other costs associated with the operation or internal organization and function of Landlord as a business entity (but this provision does not prevent the payment of a management fee to Landlord as provided in this Paragraph 6); (vii) fees or other costs for professional services provided by space planners, architects, engineers, and other similar professional consultants, real estate commissions, and marketing and advertising expenses; (viii) costs of defending or prosecuting litigation with any party, unless a favorable judgment would reduce or avoid an increase in Operating Expenses, or unless the litigation is to enforce compliance with Rules and Regulations of the Project, or other standards or requirements for the general benefit of the tenants in the Project; (ix) costs incurred as a result of Landlord's violation or breach of this Lease or of any other lease, contract, law or ordinance, including fines and penalties; (x) late charges, interest or penalties of any kind for late or other improper payment of any public or private obligation, including ad valorem taxes; (xi) costs of removing Hazardous Materials or of correcting any other conditions in order to comply with any environmental law or ordinance (but this exclusion shall not constitute a release by Landlord of Tenant for any such costs for which Tenant is liable pursuant to Paragraph 30 of this Lease); (xii) costs for which Landlord is reimbursed from any other source; (xiii) costs related to any building or land not included in the Premises; (xiv) the part of any costs or other sum paid to any affiliate of Landlord that may exceed the fair market price or cost generally payable for substantially similar goods or services in the area of the Premises; (xv) bad debt expenses; (xvi) costs arising from Landlord's charitable or political contributions, if any; and (xvii) the cost of Landlord's compliance with the provisions of Paragraphs 2, 3 or Addendum 3 hereof, or any other costs which are charged to Landlord and not to be borne by Tenant under the terms of the Lease.

Notwithstanding anything contained herein to the contrary, the property management fees payable to any independent property manager (which excludes Landlord or any affiliate of Landlord), as set forth in this Paragraph 6, shall not exceed 2% of the gross monthly revenues collected from Tenant.

Landlord shall provide Tenant within 90 days following the final day of the calendar year Landlord's itemized year-end operating expense reconciliation reports which reference and include all applicable Operating Expenses for such year. Upon Tenant's written request (which request shall be limited to once in a calendar year), Landlord shall provide photocopies of invoices, bills and other verification to substantiate Operating Expenses. If Tenant's total payments of estimated Operating Expenses for any year are less than the actual Operating Expenses for such year, then Tenant shall pay the difference to Landlord within 30 days after demand, and if more, then Landlord shall retain such excess

and credit it against Tenant's next payment of Operating Expenses. For purposes of calculating Operating Expenses, a year shall mean a calendar year except the first year, which shall begin on the Commencement Date, and the last year, which shall end on the expiration of this Lease.

7. **Utilities.** Tenant shall pay for all water, gas, electricity, heat, light, power, telephone, sewer, sprinkler services, refuse and trash collection, and other utilities and services used on the Premises, all maintenance charges for utilities, and any storm sewer charges or other similar charges for utilities imposed by any governmental entity or utility provider, together with any taxes, penalties, surcharges or the like pertaining to Tenant's use of the Premises. All utilities shall be separately metered or charged directly to Tenant by the provider. No interruption or failure of utilities shall result in the termination of this Lease or the abatement of rent.

If not part of the initial construction, Landlord may, at its sole expense, install solar panels on the roof of the Premises which will generate electricity which will be supplied to the Premises (which may flow directly into the power grid established by the electrical utility provider selected by Tenant). Tenant agrees to cooperate with Landlord (at no expense to Tenant) in connection with such installation, including any metering system which Landlord may elect to install, and Tenant agrees to utilize the electrical power generated by such solar panel system when it is available. To the extent that Tenant's electrical bill is reduced (either directly or indirectly, which may be effectuated by means of credits and/or vouchers provided to Tenant by Landlord or by the electrical service provider) by virtue of Tenant's use of the electrical power generated by such solar panel system, Tenant will pay a like amount (including any applicable sales tax) to Landlord as payment for the cost of providing such electrical power; provided, however, that under no circumstances will the total amount paid to Landlord and the electrical utility provider exceed the amount which Tenant would otherwise have paid to the electrical utility provider had the solar panel system not been utilized. Payments to Landlord shall be made monthly along with the payments of Base Rent, for the cost of electrical power for the previous month. Landlord shall not be responsible to Tenant for any disruption or any other problem involving the electrical service supplied by such solar panels. Tenant acknowledges that electricity may only be provided from such solar panels during daylight and that accordingly, Tenant will still need to obtain and maintain its own electrical service (24/7) from an electrical utility provider.

8. **Taxes.** Landlord shall pay all taxes, assessments and governmental charges (collectively referred to as "Taxes") that accrue against the Premises during the Lease Term, including any increased Taxes resulting from the sale or other disposition of the Premises by Landlord, or any other change of ownership which results in the reassessment of Taxes. Taxes shall be included in the computation of Operating Expenses charged to Tenant. Landlord may contest by appropriate legal proceedings the amount, validity, or application of any Taxes or liens thereof. If Landlord fails to contest the real estate taxes, Tenant shall have the right to request Landlord to contest such taxes, and Landlord shall so contest, at Tenant's sole cost and expense (including, without limitation, Landlord's reasonable attorneys' fees and reasonable fees payable to tax consultants and attorneys for consultation and contesting taxes), if, in Landlord's reasonable judgment, such contest is warranted; provided, however, Tenant's request of such contesting of Taxes shall be limited to one request in a calendar year. Landlord shall cooperate in the institution and prosecution of any such proceedings of contesting taxes and will execute any documents reasonably required therefor. All reductions, refunds, or rebates of Taxes paid or payable by Tenant shall belong to Tenant whether as a consequence of a Tenant proceeding or otherwise. All capital levies or other taxes assessed or imposed on Landlord upon the rents payable to Landlord under this Lease and any franchise tax, any excise, transaction, sales or privilege tax, assessment, levy or charge measured by or based, in whole or in part, upon such rents from the Premises and/or the Project or any portion thereof shall be paid by Tenant to Landlord monthly in estimated installments or upon demand, at the option of Landlord, as additional rent; provided, however, in no event shall Tenant be liable for any net income taxes imposed on Landlord unless such net income taxes are in substitution for any Taxes payable

hereunder. If any such tax or excise is levied or assessed directly against Tenant, then Tenant shall be responsible for and shall pay the same at such times and in such manner as the taxing authority shall require. Tenant shall be liable for all taxes levied or assessed against any personal property or fixtures placed in the Premises, whether levied or assessed against Landlord or Tenant.

9. **Insurance.** Landlord shall maintain special form (including theft) property insurance covering the full replacement cost of the Building and other improvements on the Premises. Landlord may, but is not obligated to, maintain such other insurance and additional coverages as it may deem necessary, including, but not limited to, commercial liability insurance or rent loss insurance and earthquake insurance and terrorism insurance, if such insurance is customarily required by lenders with respect to comparable buildings in the market area of the Premises, and if the cost thereof is commercially reasonable. All such insurance shall be included as part of the Operating Expenses charged to Tenant. The Building (and such other improvements) may be included in a blanket policy (in which case the cost of such insurance allocable to the Building and such other improvements will be determined by Landlord based upon the insurer's cost calculations). Tenant shall also reimburse Landlord for any increased premiums or additional insurance which Landlord reasonably deems necessary as a result of Tenant's use of the Premises.

Tenant, at its expense, shall maintain during the Lease Term: all risk property insurance covering the full replacement cost of all property and improvements installed or placed in the Premises by Tenant at Tenant's expense; worker's compensation insurance with no less than the minimum limits required by law; employer's liability insurance with such limits as required by law; and commercial liability insurance, with a minimum limit of \$1,000,000 per occurrence and a minimum umbrella limit of \$1,000,000, for a total minimum combined general liability and umbrella limit of \$2,000,000 (together with such additional umbrella coverage as Landlord may reasonably require) for property damage, personal injuries, or deaths of persons occurring in or about the Premises. Landlord may from time to time require reasonable increases in any such limits. The commercial liability policies shall name Landlord and any Lender as an additional insured, insure on an occurrence and not a claims-made basis, be issued by insurance companies which are reasonably acceptable to Landlord, not be cancelable unless 30 days' prior written notice shall have been given to Landlord, contain a hostile fire endorsement and a contractual liability endorsement and provide primary coverage to Landlord (any policy issued to Landlord providing duplicate or similar coverage shall be deemed excess over Tenant's policies). Such policies or certificates thereof shall be delivered to Landlord by Tenant upon commencement of the Lease Term and upon each renewal of said insurance.

Without affecting any other rights or remedies, Tenant and Landlord each hereby release and relieve the other, and waive their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to the perils required to be insured against herein. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance carriers waive any right to subrogation that such companies may have against Landlord or Tenant, as the case may be, so long as the insurance is not invalidated thereby.

Except in the case of negligence or breach of this Lease by Landlord or its agents, neither Landlord nor its agents shall be liable under any circumstances for: (i) injury or damage to the person or goods, wares, merchandise or other property of Tenant, Tenant's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, indoor air quality, the presence of mold or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the Project or from other sources or places, (ii) injury to Tenant's business or for any loss of income or profit therefrom.

10. **Landlord's Repairs.** Landlord shall maintain, at its expense (and not as part of Operating Expenses), the structural components of the roof, foundation footings (excluding the slab), and exterior walls of the Building in good repair, reasonable wear and tear and uninsured losses and damages caused by Tenant, its agents and contractors excluded. The term "walls" as used in this Paragraph 10 shall not include windows, glass or plate glass, doors or overhead doors, special store fronts, dock bumpers, dock plates or levelers, or office entries. Tenant shall promptly give Landlord written notice of any repair required by Landlord pursuant to this Paragraph 10, after which Landlord shall have a reasonable opportunity to repair.

Landlord shall also be responsible for the repair, maintenance and upkeep of the non-structural portions of the roof (including skylights), exterior walls (including exterior wall painting), and for the upkeep and maintenance (in accordance with applicable Legal Requirements) of the areas of the Premises which are subject to the Water Quality Management Plan. The costs and expenses of the foregoing shall be included in the computation of Operating Expenses charged to Tenant.

In the event of an emergency, Tenant shall have the right to make such temporary, emergency repairs (and only such temporary, emergency repairs) to the roof, foundation or exterior walls of the Building as may be reasonably necessary to prevent material damage to Tenant's property at the Premises and/or personal injury to Tenant's employees at the Premises (provided Tenant first attempts to notify Landlord telephonically of such emergency and notifies Landlord of such circumstances in writing as soon as practicable thereafter). In such event, Landlord shall reimburse Tenant for the reasonable, out-of-pocket costs actually incurred by Tenant in making such repairs. If Landlord fails to reimburse Tenant for the reasonable, out-of-pocket costs incurred by Tenant in making such repairs, up to but not to exceed \$25,000.00 with respect to such emergency, within 30 days after demand therefor, accompanied by supporting evidence of the costs incurred by Tenant, then Tenant may bring an action for damages against Landlord to recover such costs, together with interest thereof at the rate provided for in Paragraph 37(j) of the Lease, and reasonable attorney's fees incurred by Tenant in bringing such action for damages. In no event, however, shall Tenant have a right to terminate the Lease.

11. **Tenant's Repairs.** Subject to Landlord's obligations as set forth in Paragraph 10 of this Lease, and subject to the provisions of Paragraphs 15 and 16, and subject to the right of Landlord set forth below in this Paragraph 11, Tenant, at its expense, shall repair, replace and maintain in good condition, reasonable wear and tear, and losses and damages caused by Landlord, its agents and contractors excepted, all portions of the Premises including, without limitation, dock and loading areas, truck doors, plumbing, water and sewer lines up to the public right-of-way, entries, doors, ceilings, windows, interior walls, interior side of demising walls, heating, ventilation and air conditioning systems, the fire sprinklers and fire protection systems, the slab (other than structural defects in the slab), the parking areas, driveways, alleys, and all landscaped areas and grounds. Such repair and replacements include capital expenditures and repairs whose benefit may extend beyond the Lease Term. Heating, ventilation and air conditioning systems shall be maintained at Tenant's expense pursuant to maintenance service contracts entered into by Tenant. The scope of services and contractors under such maintenance contracts shall be reasonably approved by Landlord. If Tenant fails to perform any repair or replacement for which it is responsible, Landlord may perform such work and be reimbursed by Tenant within 10 days after demand therefor. Subject to Paragraphs 15 and 16, Tenant shall bear the full cost of any repair or replacement to any part of the Building or other improvements to the Premises or the Project that results from damage caused by Tenant, its agents, contractors, or invitees and any repair that benefits only the Premises.

12. **Tenant-Made Alterations and Trade Fixtures.** Any alterations, additions, or improvements made by or on behalf of Tenant to the Premises ("Tenant-Made Alterations") in excess of \$50,000 shall be subject to Landlord's prior written consent, which shall not be unreasonably withheld, conditioned or delayed, provided that such alteration does not materially affect the structure or the roof of

the Building, or modify the utility systems of the Building. Tenant shall cause, at its expense, all Tenant-Made Alterations to comply with insurance requirements and with Legal Requirements and shall construct at its expense any alteration or modification required by Legal Requirements as a result of any Tenant-Made Alterations. All Tenant-Made Alterations shall be constructed in a good and workmanlike manner by contractors reasonably acceptable to Landlord and only good grades of materials shall be used. All plans and specifications for any Tenant-Made Alterations shall be submitted to Landlord for its approval. Landlord may monitor construction of the Tenant-Made Alterations. Tenant shall reimburse Landlord for its reasonable costs in reviewing plans and specifications and in monitoring construction. Landlord's right to review plans and specifications and to monitor construction shall be solely for its own benefit, and Landlord shall have no duty to see that such plans and specifications or construction comply with applicable laws, codes, rules and regulations. Tenant shall provide Landlord with the identities and mailing addresses of all persons performing work or supplying materials, prior to beginning such construction, and Landlord may post on and about the Premises notices of non-responsibility pursuant to applicable law. Tenant shall furnish security or make other arrangements reasonably satisfactory to Landlord to assure payment for the completion of all work free and clear of liens and shall provide certificates of insurance for worker's compensation and other coverage in amounts and from an insurance company satisfactory to Landlord protecting Landlord against liability for personal injury or property damage during construction. Upon completion of any Tenant-Made Alterations, Tenant shall deliver to Landlord sworn statements setting forth the names of all contractors and subcontractors who did work on the Tenant-Made Alterations and final lien waivers from all such contractors and subcontractors. Upon surrender of the Premises, all Tenant-Made Alterations and any leasehold improvements constructed by Landlord or Tenant shall remain on the Premises as Landlord's property, except to the extent Landlord requires removal at Tenant's expense of any such items or Landlord and Tenant have otherwise agreed in writing in connection with Landlord's consent to any Tenant-Made Alterations. Upon Tenant's written request, Landlord shall provide Tenant, at the time of Tenant's request for approval of Tenant-Made Alterations, a list of which Tenant-Made Alterations Landlord will require Tenant to remove upon surrender of the Premises. Tenant shall repair any damage caused by such removal.

Tenant, at its own cost and expense and without Landlord's prior approval, may erect such shelves, bins, machinery and trade fixtures (collectively "Trade Fixtures") in the ordinary course of its business provided that such items do not alter the basic character of the Premises, do not overload or damage the Premises, and may be removed without injury to the Premises, and the construction, erection, and installation thereof complies with all Legal Requirements and with Landlord's requirements set forth above. Upon surrender or vacating of the Premises, Tenant shall remove its Trade Fixtures and shall repair any damage caused by such removal.

13. **Signs and Roof.** Tenant shall not make any changes to the exterior of the Premises, install any exterior lights, decorations, balloons, flags, pennants, banners, or painting, or erect or install any signs, windows or door lettering, placards, decorations, or advertising media of any type which can be viewed from the exterior of the Premises, without Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed. Without limiting the generality of the foregoing, Tenant may not paint its name on the roof of the Building. Upon surrender or vacation of the Premises, Tenant shall have removed all signs and repair, paint, and/or replace the building facia surface to which its signs are attached. Tenant shall obtain all applicable governmental permits and approvals for sign and exterior treatments. All signs, decorations, advertising media, blinds, draperies and other window treatment or bars or other security installations visible from outside the Premises shall be subject to Landlord's approval and conform in all respects to Landlord's requirements. The use of the roof shall be reserved exclusively to Landlord for any use which does not interfere with Tenant's business operations including, but not limited to the installation of solar panels (as described in Section 7) or leasing space to cellular telephone service providers for cell tower placement.

14. **Parking.** Tenant shall be entitled to parking only within the boundaries of the Premises which are designated as parking areas on the Site Plan.

15. **Damage and Destruction.** If at any time during the Lease Term the Premises are damaged by a fire or other casualty, Landlord shall notify Tenant within 30 days after such damage as to the amount of time Landlord reasonably estimates it will take to restore the Premises.

(a) If the Premises are damaged by fire or other casualty covered by insurance which Landlord is required to carry hereunder (and for which there are sufficient insurance proceeds available, excluding any deductible, to repair the damage), then Landlord shall, subject to Force Majeure events and delays arising from the collection of insurance proceeds, repair such damage (excluding the improvements installed by Tenant or by Landlord and paid by Tenant) within 9 months and this Lease shall continue in full force and effect. Tenant at Tenant's expense shall promptly perform, subject to delays arising from the collection of insurance proceeds, or from Force Majeure events, all repairs or restoration not required to be done by Landlord. If the Premises are damaged by fire or other casualty and there is no insurance or insufficient insurance proceeds (excluding any deductible) to repair the Premises, then Landlord may, at its option, either terminate this Lease, by giving notice to Tenant within 30 days of the date of damage, or repair such damage in the same manner as if there had been sufficient insurance proceeds available, at Landlord's expense, and if Landlord so elects to repair, then the Lease shall continue in full force and effect. Landlord's failure to deliver a termination notice to Tenant as aforesaid, shall be deemed Landlord's election to repair the Premises.

(b) If the Premises are damaged during the last 18 months of the Lease Term, and if the restoration time is estimated to exceed 6 months and such damage materially interferes with Tenant's use of the Premises, Tenant may elect to terminate this Lease upon notice to Landlord given no later than 30 days after Tenant's receipt of Landlord's written notice of its estimate of the amount of time it will take to repair the Premises. If Tenant elects not to terminate this Lease or if Landlord estimates that the repair will take 6 months or less, then, Landlord shall promptly repair the Premises excluding the improvements installed by Tenant or by Landlord and paid by Tenant, subject to delays arising from the collection of insurance proceeds from Force Majeure events. Tenant at Tenant's expense shall promptly perform, subject to delays arising from the collection of insurance proceeds, or from Force Majeure events, all repairs or restoration not required to be done by Landlord and shall promptly re-enter the Premises and commence doing business in accordance with this Lease.

(c) Notwithstanding the foregoing, either party may terminate this Lease if the Premises are damaged during the last 9 months of the Lease Term and Landlord reasonably estimates that it will take more than one month to repair such damage. Base Rent and Operating Expenses shall be abated for the period of repair and restoration in the proportion which the area of the Premises, if any, which is not usable by Tenant bears to the total area of the Premises. Unless Tenant has terminated the Lease pursuant to this Section 15, such abatement shall be the sole remedy of Tenant.

(d) If Landlord shall be obligated to repair or restore the Premises under the provisions of this Section 15 and shall not complete the restoration within the estimated or required time as provided above, Tenant may, at its election, give written notice to Landlord and to any Lenders of which Tenant has actual notice of Tenant's election to use the proceeds of such insurance to perform the necessary repairs or restorations of the Premises. If Tenant gives such notice to Landlord and such Lenders and such repair or restoration is not commenced within 60 days after receipt of such notice, then Tenant shall be entitled to take over the repairs or restoration and to use all available insurance proceeds for such purposes. If Landlord or a lender completes the repair or restoration of the Premises within 60 days after receipt of such notice, Tenant shall not have such right. "Commence" as used in this Paragraph shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

(e) In the event Landlord fails to perform any terms, covenants, conditions, or warranties under this Lease or under applicable law, beyond the applicable cure period, then Tenant shall have the right, but not the obligation to make the necessary and applicable repairs or to take the necessary appropriate action, on behalf of Landlord, and Landlord shall credit Tenant's Base Rent for the cost of such repairs.

(f) Tenant hereby waives the provisions of California Civil Code Sections 1932(2) and 1933(4), to the extent that they are inconsistent with the provisions of this Paragraph.

16. **Condemnation.**

(a) Immediately upon obtaining knowledge of the institution of any proceeding which may result in the transfer of title to all or a portion of the Premises by condemnation or other eminent domain proceeding, or by reason of any agreement with any potential condemning authority in settlement of or under any such proceedings (each, a "Taking"), Tenant shall notify Landlord thereof and Landlord (and Landlord's Lender, if any) shall be entitled to participate in any such proceeding at Tenant's expense. Landlord, immediately upon obtaining knowledge of the institution of any proceeding which may result in Taking, shall notify Tenant thereof and Tenant shall have the right to participate in such proceeding at its own expense. Tenant hereby irrevocably assigns to Landlord any award or payment in respect of any Taking, except that Tenant does not assign to Landlord any award or payment on account of Tenant's Trade Fixtures or other tangible personal property, moving expenses and similar claims which do not decrease the award to Landlord, and Tenant shall have a right to make a separate claim therefore against the condemning authority.

(b) If (i) the entire Premises or (ii) at least 15% of the floor area of the Premises, the loss of which, in any case, even after Restoration (meaning the restoration of the Premises as nearly as possible to the same physical condition as existed immediately prior to the Taking) would, in Tenant's reasonable business judgment, be substantially and materially adverse to the business operations of Tenant, or (iii) access to the Premises that exists as of the date hereof (unless sufficient access can be available after Restoration at a reasonable cost to Tenant in excess of the "Net Award", being the entire award paid by reason of the Taking, less actual and reasonable costs incurred in collecting same, or (iv) the number of parking spaces that would, if eliminated, reduce the total number required by Legal Requirements (unless sufficient replacement parking spaces can be provided on the Premises to satisfy such Legal Requirements at a reasonable cost to Tenant in excess of the Net Award), shall be subject of a Taking, then Tenant shall have the right, exercisable within thirty (30) days after the Taking has occurred, to serve Tenant's Termination Notice of its intention to terminate this Lease the Termination Date, which shall be no sooner than thirty (30) days after the date of Tenant's Termination Notice and not later than ninety (90) days after the Tenant's Termination Notice.

In the event that Tenant shall timely serve Tenant's Termination Notice upon Landlord, this Lease and the Lease Term hereof shall terminate on the Termination Date.

(c) In the event of any Taking of part of the Premises which does not result in a termination of this Lease, the Net Award of such Taking shall be retained by Landlord, unless if separately awarded to Tenant, and, promptly after such Taking, Tenant shall commence and diligently continue to perform the Restoration whether or not the Net Award shall be sufficient to do so.

Upon the payment to Landlord of the Net Award of the Taking which falls within the provisions of this subparagraph (c), Landlord (and Landlord's Lender, if any) shall, to the extent received, make that portion of the Net Award equal to the cost of Restoration (the "Restoration Award") available to Tenant for Restoration, the balance remaining (the "Net Surplus Award") shall be the property of Landlord, and shall be applied, at Landlord's option, as follows:

(i) The Net Surplus Award shall be retained by Landlord, in which event the Base Rent becoming due after Landlord receives the Net Surplus Award, but exclusive of any extended Term for which Tenant had not exercised its extension option as of the date Tenant received notice of such Taking, shall be reduced by an amount which bears the same proportion to the Base Rent payable immediately prior to such Taking as the fair market rent of the portion of the Premises so taken shall bear to the fair market rent of the whole of the Premises immediately prior to such Taking.

(ii) Tenant shall receive that portion of the Net Surplus Award equal to the present value (calculated at a discount rate of nine percent (9%) of the reductions in the Base Rent, exclusive of any extended Terms for which Tenant had not exercised its extension option as of the date Tenant received notice of such Taking, that would have occurred had Landlord elected to apply the Net Surplus Award under subparagraph (i) above; that portion of the Net Surplus Award in excess of the amount so received by Tenant shall be retained by Landlord; and the Base Rent shall not be reduced.

(d) Except with respect to an award or payment to which Tenant is entitled pursuant to the foregoing provisions of this Paragraph no agreement with any condemning authority in settlement of or under threat of any condemnation or other eminent domain proceedings shall be made by either Landlord or Tenant without the written consent of the other, which consent shall not be reasonably withheld, conditioned or delayed provided such award or payment is applied in accordance with this Lease.

(e) Notwithstanding anything to the contrary set forth herein after a Taking which does not result in the termination of this Lease, the Monthly Base Rent and Operating Expense Payments and other charges, if any, due hereunder shall be reduced in the same proportion as the rentable floor area of the Premises taken bears to the original rentable floor area of the Premises prior to such taking.

17. **Assignment and Subletting.** Without Landlord's prior written consent, which Landlord shall not unreasonably withhold, condition or delay, Tenant shall not assign this Lease or sublease the Premises or any part thereof or mortgage, pledge, or hypothecate its leasehold interest or grant any concession or license within the Premises and any attempt to do any of the foregoing shall be void and of no effect. For purposes of this paragraph, a transfer of the ownership interests controlling Tenant shall be deemed an assignment of this Lease unless such ownership interests are publicly traded or unless such transfers do not result in a loss of such control. Notwithstanding the above, Tenant may assign or sublet the Premises, or any part thereof, to any entity controlling Tenant, controlled by Tenant or under common control with Tenant (a "Tenant Affiliate"), without the prior written consent of Landlord, but upon notice to Landlord, and provided that any Tenant Affiliate which is assignee assumes in writing all of Tenant's obligations under the Lease and any Tenant Affiliate which is a subtenant executes a sublease which complies with the requirements below. Notwithstanding the above, concurrently with the execution of this Lease, Tenant shall enter into a sublease of 30,000 square feet of the Premises with Highland Fairview (or one of its affiliates). The sublease shall be in substantially the form of Exhibit "C" attached

hereto. The prior written consent of Landlord to such sublease shall not be required, provided that the sublease shall remain subordinate to this Lease. Tenant shall reimburse Landlord for all of Landlord's reasonable out-of-pocket expenses in connection with any assignment or sublease.

It shall be reasonable for the Landlord to withhold its consent to any assignment or sublease in any of the following instances: (i) an Event of Default has occurred and is continuing that would not be cured upon the proposed sublease or assignment; (ii) the assignee or sublessee does not have a net worth calculated according to generally accepted accounting principles at least equal to \$50 million immediately prior to such assignment or sublease; (iii) the intended use of the Premises by the assignee or sublessee is not reasonably satisfactory to Landlord; (iv) the identity or business reputation of the assignee or sublessee will, in the good faith judgment of Landlord, tend to damage the goodwill or reputation of the Project; (v) in the case of a sublease, the subtenant has not acknowledged that the Lease controls over any inconsistent provision in the sublease; or (vi) the proposed assignee or sublessee is a governmental agency. Tenant and Landlord acknowledge that each of the foregoing criteria is reasonable as of the date of execution of this Lease. The foregoing criteria shall not exclude any other reasonable basis for Landlord to refuse its consent to such assignment or sublease. Any approved assignment or sublease shall be expressly subject to the terms and conditions of this Lease. Tenant shall provide to Landlord all information concerning the assignee or sublessee as Landlord may request.

Notwithstanding any assignment or subletting, Tenant and any guarantor or surety of Tenant's obligations under this Lease shall at all times remain fully responsible and liable for the payment of the rent and for compliance with all of Tenant's other obligations under this Lease (regardless of whether Landlord's approval has been obtained for any such assignments or sublettings). In the event that the rent due and payable by a sublessee or assignee (or a combination of the rental payable under such sublease or assignment plus any bonus or other consideration therefor or incident thereto) exceeds the rental payable under this Lease (prorated if less than 100% of the Premises are subleased or assigned), then Tenant shall be bound and obligated to pay Landlord as additional rent hereunder 50% of all such excess rental and other excess consideration within 10 days following receipt thereof by Tenant.

If this Lease be assigned or if the Premises be subleased (whether in whole or in part) or in the event of the mortgage, pledge, or hypothecation of Tenant's leasehold interest or grant of any concession or license within the Premises or if the Premises be occupied in whole or in part by anyone other than Tenant, then upon a default by Tenant hereunder Landlord may collect rent from the assignee, sublessee, mortgagee, pledgee, party to whom the leasehold interest was hypothecated, concessionee or licensee or other occupant and, except to the extent set forth in the preceding paragraph, apply the amount collected to the next rent payable hereunder; and all such rentals collected by Tenant shall be held in trust for Landlord and immediately forwarded to Landlord. No such transaction or collection of rent or application thereof by Landlord, however, shall be deemed a waiver of these provisions or a release of Tenant from the further performance by Tenant of its covenants, duties, or obligations hereunder.

18. **Indemnification.** Except for the gross negligence or willful misconduct of Landlord, its agents, employees or contractors, and to the extent permitted by law, Tenant agrees to indemnify, defend and hold harmless Landlord, and Landlord's members and their respective agents, employees and contractors and any Lender, from and against any and all losses, liabilities, damages, costs and expenses (including attorneys' fees) resulting from claims by third parties for injuries to any person and damage to or theft or misappropriation or loss of property occurring in or about the Premises and arising from the use and occupancy of the Premises or from any activity, work, or thing done, permitted or suffered by Tenant in or about the Premises or due to any other act or omission of Tenant, its subtenants, assignees, invitees, employees, contractors and agents. The furnishing of insurance required hereunder shall not be deemed to limit Tenant's obligations under this Paragraph 18.

Except for the gross negligence or willful misconduct of Tenant, its agents, employees or contractors, and to the extent permitted by law, Landlord agrees to indemnify, defend and hold harmless Tenant, and Tenant's shareholders, directors, officers, agents, employees and contractors, from and against any and all losses, liabilities, damages, costs and expenses (including attorneys' fees) resulting from claims by third parties for injuries to any person and damage to or loss of property occurring in or about the Premises or the Project resulting from the grossly negligent or willful acts or omissions of Landlord.

The provisions of this paragraph shall survive termination of the Lease with respect to events occurring prior to such termination.

19. **Inspection and Access.** Landlord and its agents, representatives, and contractors may enter the Premises at any reasonable time to inspect the Premises and to make such repairs as may be required or permitted pursuant to this Lease and for any other business purpose. Landlord and Landlord's representatives may enter the Premises during business hours for the purpose of showing the Premises to prospective purchasers and, during the last two years of the Lease Term, to prospective tenants. Landlord may erect a suitable sign on the Premises stating the Premises are available to let or that the Premises is available for sale. Landlord may grant easements, make public dedications, designate common areas and create restrictions on or about the Premises, provided that no such easement, dedication, designation or restriction materially interferes with Tenant's use or occupancy of the Premises. At Landlord's request, Tenant shall execute such instruments as may be necessary for such easements, dedications or restrictions.

20. **Quiet Enjoyment.** Upon payment by Tenant of the rent for the Premises and the observance and performance of all of the covenants, conditions and provisions on Tenant's part to be observed and performed under this Lease, Tenant shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. If Tenant shall not be in default beyond any applicable grace period provided herein, Tenant shall peaceably and quietly occupy and enjoy the full possession and use of the Premises and the use of the Common Areas.

21. **Surrender.** Upon expiration of the Lease Term or earlier termination of the Lease, Tenant shall surrender the Premises to Landlord in the same condition as received, broom clean, ordinary wear and tear and casualty loss and condemnation covered by Paragraphs 15 and 16, and Tenant's removal or non-removal of Tenant-Made Alterations pursuant to the provisions of Paragraph 12 excepted. Any Trade Fixtures, Tenant-Made Alterations and property not so removed by Tenant as permitted or required herein shall be deemed abandoned and may be stored, removed, and disposed of by Landlord at Tenant's expense, and Tenant waives all claims against Landlord for any damages resulting from Landlord's retention and disposition of such property. All obligations of Tenant hereunder not fully performed as of the termination of the Lease Term shall survive the termination of the Lease Term, including without limitation, indemnity obligations, payment obligations with respect to Operating Expenses, and obligations concerning the condition and repair of the Premises.

22. **Holding Over.** If Tenant retains possession of the Premises after the expiration of the Lease Term, unless otherwise agreed in writing, such possession shall be subject to immediate termination by Landlord at any time, and all of the other terms and provisions of this Lease (excluding any expansion or renewal option or other similar right or option) shall be applicable during such holdover period, except that Tenant shall pay Landlord from time to time, upon demand, as Base Rent for the holdover period, an amount equal to double the Base Rent in effect on the termination date, computed on a monthly basis for each month or part thereof during such holding over. All other payments shall continue under the terms of this Lease. In addition, Tenant shall be liable for all damages incurred by Landlord as a result of such holding over. No holding over by Tenant, whether with or without consent of Landlord, shall operate to extend this Lease except as otherwise expressly provided, and this Paragraph

22 shall not be construed as consent for Tenant to retain possession of the Premises. For purposes of this Paragraph 22, "possession of the Premises" shall continue until, among other things, Tenant has delivered all keys to the Premises to Landlord, Landlord has complete and total dominion and control over the Premises, and Tenant has completely fulfilled all obligations required of it upon termination of the Lease as set forth in this Lease, including, without limitation, those concerning the condition and repair of the Premises.

23. **Events of Default.** Each of the following events shall be an event of default ("Event of Default") by Tenant under this Lease:

(i) Tenant shall fail to pay any installment of Base Rent or any other payment required herein when due, and such failure shall continue for a period of 10 days from the date of written notice thereof.

(ii) Tenant or any guarantor or surety of Tenant's obligations hereunder shall (A) make a general assignment for the benefit of creditors; (B) commence any case, proceeding or other action seeking to have an order for relief entered on its behalf as a debtor or to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or of any substantial part of its property (collectively a "proceeding for relief"); (C) become the subject of any proceeding for relief which is not dismissed within 60 days of its filing or entry; or (D) die or suffer a legal disability (if Tenant, guarantor, or surety is an individual) or be dissolved or otherwise fail to maintain its legal existence (if Tenant, guarantor or surety is a corporation, partnership or other entity).

(iii) Any insurance required to be maintained by Tenant pursuant to this Lease shall be cancelled or terminated or shall expire or shall be reduced or materially changed, except, in each case, as permitted in this Lease.

(iv) Tenant shall abandon or vacate the Premises or fail to continuously operate its business at the Premises for the permitted use set forth herein, whether or not Tenant is in monetary or other default under this Lease. Notwithstanding anything contained herein to the contrary, Tenant's abandoning, vacating, or failing to continuously operate its business at the Premises shall not constitute an Event of Default if, prior to vacating, abandoning, or ceasing to continuously operate its business at the Premises, Tenant has made arrangements reasonably acceptable to Landlord to (a) insure that the insurance for the Premises will not be voided or cancelled with respect to the Premises as a result of such vacancy, abandonment, or ceasing of operations, (b) insure that the Premises are reasonably secured from theft and vandalism, and (c) insure that the Premises will be properly maintained after such vacation. Tenant shall inspect the Premises at least once each month and report monthly in writing to Landlord in the event the condition of the Premises has materially changed.

(v) Tenant shall attempt or there shall occur any assignment, subleasing or other transfer of Tenant's interest in or with respect to this Lease except as otherwise permitted in this Lease.

(vi) Tenant shall fail to discharge any lien placed upon the Premises in violation of this Lease within 30 days after any such lien or encumbrance is filed against the Premises.

(vii) As long as Tenant (or an affiliate of Tenant) is a member of Landlord, any default by Tenant, or an affiliate of Tenant, under Landlord's Operating Agreement (beyond any applicable notice or cure period set forth therein).

(viii) Tenant shall fail to comply with any provision of this Lease other than those specifically referred to in this Paragraph 23, and except as otherwise expressly provided herein, such default shall continue for more than 30 days after Landlord shall have given Tenant written notice of such default, or if performance is not possible within such period, any failure of Tenant to commence performance within such period and to diligently prosecute such performance to completion.

(ix) Tenant shall default (beyond any applicable notice and/or cure period) under that certain Lease dated September 25, 2007 (as amended) between Landlord and Tenant for approximately 82.59 acres of land adjacent to the Premises (the "Prior Lease").

24. **Landlord's Remedies.** Upon each occurrence of an Event of Default and so long as such Event of Default shall be continuing, Landlord may at any time thereafter at its election: terminate this Lease or Tenant's right of possession, (but Tenant shall remain liable as hereinafter provided) and/or pursue any other remedies at law or in equity. Upon the termination of this Lease or termination of Tenant's right of possession, it shall be lawful for Landlord, without formal demand or notice of any kind, to re-enter the Premises by summary dispossession proceedings or any other action or proceeding authorized by law and to remove Tenant and all persons and property therefrom. If Landlord re-enters the Premises, Landlord shall have the right to keep in place and use, or remove and store, all of the furniture, fixtures and equipment at the Premises.

Except as otherwise provided in the next paragraph, if Tenant breaches this Lease and abandons the Premises prior to the end of the term hereof, or if Tenant's right to possession is terminated by Landlord because of an Event of Default by Tenant under this Lease, this Lease shall terminate. Upon such termination, Landlord may recover from Tenant the following, as provided in Section 1951.2 of the Civil Code of California: (i) the worth at the time of award of the unpaid Base Rent and other charges under this Lease that had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the reasonable value of the unpaid Base Rent and other charges under this Lease which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; (iii) the worth at the time of the award by which the reasonable value of the unpaid Base Rent and other charges under this Lease for the balance of the term of this Lease after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; and (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or that in the ordinary course of things would be likely to result therefrom. As used herein, the following terms are defined: (a) the "worth at the time of award" of the amounts referred to in Sections (i) and (ii) is computed by allowing interest at the lesser of 18 percent per annum or the maximum lawful rate. The "worth at the time of award" of the amount referred to in Section (iii) is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent; (b) the "time of award" as used in clauses (i), (ii), and (iii) above is the date on which judgment is entered by a court of competent jurisdiction; (c) The "reasonable value" of the amount referred to in clause (ii) above is computed by determining the mathematical product of (1) the "reasonable annual rental value" (as defined herein) and (2) the number of years, including fractional parts thereof, between the date of termination and the time of award. The "reasonable value" of the amount referred to in clause (iii) is computed by determining the mathematical product of (1) the annual Base Rent and other charges under this Lease and (2) the number of years including fractional parts thereof remaining in the balance of the term of this Lease after the time of award.

Even though Tenant has breached this Lease and abandoned the Premises, this Lease shall continue in effect for so long as Landlord does not terminate Tenant's right to possession, and Landlord may enforce all its rights and remedies under this Lease, including the right to recover rent as it becomes due. This remedy is intended to be the remedy described in California Civil Code Section 1951.4 and the

following provision from such Civil Code Section is hereby repeated: "The Lessor has the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has right to sublet or assign, subject only to reasonable limitations)." Any such payments due Landlord shall be made upon demand therefor from time to time and Tenant agrees that Landlord may file suit to recover any sums falling due from time to time. Notwithstanding any such reletting without termination, Landlord may at any time thereafter elect in writing to terminate this Lease for such previous breach.

Exercise by Landlord of any one or more remedies hereunder granted or otherwise available shall not be deemed to be an acceptance of surrender of the Premises and/or a termination of this Lease by Landlord, whether by agreement or by operation of law, it being understood that such surrender and/or termination can be effected only by the written agreement of Landlord and Tenant. Any law, usage, or custom to the contrary notwithstanding, Landlord shall have the right at all times to enforce the provisions of this Lease in strict accordance with the terms hereof; and the failure of Landlord at any time to enforce its rights under this Lease strictly in accordance with same shall not be construed as having created a custom in any way or manner contrary to the specific terms, provisions, and covenants of this Lease or as having modified the same. Tenant and Landlord further agree that forbearance or waiver by Landlord to enforce its rights pursuant to this Lease or at law or in equity shall not be a waiver of Landlord's right to enforce one or more of its rights in connection with any subsequent default. A receipt by Landlord of rent or other payment with knowledge of the breach of any covenant hereof shall not be deemed a waiver of such breach, and no waiver by Landlord of any provision of this Lease shall be deemed to have been made unless expressed in writing and signed by Landlord. To the greatest extent permitted by law, Tenant waives the service of notice of Landlord's intention to re-enter as provided for in any statute, or to institute legal proceedings to that end, and also waives all right of redemption in case Tenant shall be dispossessed by a judgment or by warrant of any court or judge. The terms "enter," "re-enter," "entry" or "re-entry," as used in this Lease, are not restricted to their technical legal meanings. Any reletting of the Premises shall be on such terms and conditions as Landlord in its sole discretion may determine (including without limitation a term different than the remaining Lease Term, rental concessions, alterations and repair of the Premises, lease of less than the entire Premises to any tenant and leasing any or all other portions of the Project before reletting the Premises). Landlord shall not be liable, nor shall Tenant's obligations hereunder be diminished because of, Landlord's failure to relet the Premises or collect rent due in respect of such reletting.

25. **Tenant's Remedies/Limitation of Liability.** Landlord shall not be in default hereunder unless Landlord fails to perform any of its obligations hereunder within 30 days after written notice from Tenant specifying such failure (unless such performance will, due to the nature of the obligation, require a period of time in excess of 30 days, then after such period of time as is reasonably necessary so long as Landlord commences performing within said period and diligently prosecutes such performance to completion). Upon such failure Tenant shall have the option but not the obligation to cause such repair and deduct such reasonable amount from the Base Rent. Notwithstanding anything to the contrary contained herein, in the event of an emergency situation which effects the roof or structural integrity of the Premises, Landlord shall use its best efforts to repair such damage within five (5) days of Tenant's written notice of such event. In the event of an emergency (any event that in Tenant's reasonable opinion poses a potential threat to life and/or property), and/or in the event that Landlord shall fail to perform any of Landlord's responsibilities within the applicable cure period, then Tenant shall have the right, but not the obligation to make the necessary and appropriate repairs, or to take the appropriate action on behalf of Landlord, and Landlord shall promptly reimburse Tenant the full cost of such repairs or action. If Landlord shall fail to fully reimburse Tenant for such costs, Tenant may, but shall not be required to deduct such amounts from any amounts owing or to become owing from Tenant to Landlord. All obligations of Landlord hereunder shall be construed as covenants, not conditions; and, except as may be otherwise expressly provided in this Lease, Tenant may not terminate this Lease for breach of Landlord's

obligations hereunder. All obligations of Landlord under this Lease will be binding upon Landlord only during the period of its ownership of the Premises and not thereafter. The term "Landlord" in this Lease shall mean only the owner, for the time being of the Premises, and in the event of the transfer by such owner of its interest in the Premises, such owner shall thereupon be released and discharged from all obligations of Landlord thereafter accruing, it being understood that Landlord shall not be released from any obligations accruing prior to such transfer unless such obligations have been assumed in writing by Landlord's successor, but such obligations shall be binding during the Lease Term upon each new owner for the duration of such owner's ownership. Any liability of Landlord under this Lease shall be limited solely to its interest in the Premises, and in no event shall any personal liability be asserted against Landlord or any of Landlord's partners in connection with this Lease nor shall any recourse be had to any other property or assets of Landlord or any of Landlord's partners.

26. **Intentionally Deleted.**

27. **Subordination.** This Lease and Tenant's interest and rights hereunder are and shall be subject and subordinate at all times to the lien of any mortgage, now existing or hereafter created on or against the Project or the Premises, and all amendments, restatements, renewals, modifications, consolidations, refinancing, assignments and extensions thereof, without the necessity of any further instrument or act on the part of Tenant. Tenant agrees, at the election of the holder of any such mortgage, to attorn to any such holder. Tenant agrees upon demand to execute, acknowledge and deliver such instruments, confirming such subordination and such instruments of attornment as shall be requested by any such holder. Tenant hereby appoints Landlord attorney in fact for Tenant irrevocably (such power of attorney being coupled with an interest) to execute, acknowledge and deliver any such instrument and instruments for and in the name of the Tenant and to cause any such instrument to be recorded. Notwithstanding the foregoing, any such holder may at any time subordinate its mortgage to this Lease, without Tenant's consent, by notice in writing to Tenant, and thereupon this Lease shall be deemed prior to such mortgage without regard to their respective dates of execution, delivery or recording and in that event such holder shall have the same rights with respect to this Lease as though this Lease had been executed prior to the execution, delivery and recording of such mortgage and had been assigned to such holder. The term "mortgage" whenever used in this Lease shall be deemed to include deeds of trust, security assignments and any other encumbrances, and any reference to the "holder" of a mortgage shall be deemed to include the beneficiary under a deed of trust.

Notwithstanding the foregoing paragraph, Tenant shall not be obligated to subordinate the Lease or its interest therein to any mortgage, deed of trust or ground lease on the Project or the Premises unless concurrently with such subordination the holder of such mortgage or deed of trust or the ground lessor under such ground lease upon commercially reasonable terms including, agreeing not to disturb Tenant's possession of the Premises under the terms of the Lease in the event such holder or ground lessor acquires title to the Premises through foreclosure, deed in lieu of foreclosure or otherwise. Landlord shall use reasonable commercial efforts to obtain, at no cost to Tenant, a non-disturbance agreement from any such holder or ground lessor existing as of the Commencement Date for the benefit of Tenant in a commercially reasonable form within 20 days of the date of this Lease.

28. **Mechanic's Liens.** Tenant has no express or implied authority to create or place any lien or encumbrance of any kind upon, or in any manner to bind the interest of Landlord or Tenant in, the Premises or to charge the rentals payable hereunder for any claim in favor of any person dealing with Tenant, including those who may furnish materials or perform labor for any construction or repairs. Tenant covenants and agrees that it will pay or cause to be paid all sums legally due and payable by it on account of any labor performed or materials furnished in connection with any work performed on the Premises and that it will save and hold Landlord harmless from all loss, cost or expense based on or arising out of asserted claims or liens against the leasehold estate or against the interest of Landlord in the

Premises or under this Lease. Tenant shall give Landlord immediate written notice of the placing of any lien or encumbrance against the Premises and cause such lien or encumbrance to be discharged within 30 days of the filing or recording thereof; provided, however, Tenant may contest such liens or encumbrances as long as such contest prevents foreclosure of the lien or encumbrance and Tenant causes such lien or encumbrance to be bonded or insured over in a manner satisfactory to Landlord within such 30 day period.

29. **Estoppel Certificates.** Tenant agrees, from time to time, within 10 days after request of Landlord, to execute and deliver to Landlord, or Landlord's designee, any estoppel certificate requested by Landlord, stating that this Lease is in full force and effect, the date to which rent has been paid, that Landlord is not in default hereunder (or specifying in detail the nature of Landlord's default), the termination date of this Lease and such other matters pertaining to this Lease as may be requested by Landlord. Tenant's obligation to furnish each estoppel certificate in a timely fashion is a material inducement for Landlord's execution of this Lease. No cure or grace period provided in this Lease shall apply to Tenant's obligations to timely deliver an estoppel certificate. Tenant hereby irrevocably appoints Landlord as its attorney in fact to execute on its behalf and in its name any such estoppel certificate if Tenant fails to execute and deliver the estoppel certificate within 10 days after Landlord's written request thereof.

30. **Environmental Requirements.** Except for Hazardous Material (as defined below) contained in products used by Tenant in de minimis quantities for ordinary cleaning and office purposes and equipment maintenance, Tenant shall not permit or cause any party to bring any Hazardous Material upon the Premises or transport, store, use, generate, manufacture or release any Hazardous Material in or about the Premises without Landlord's prior written consent. Tenant, at its sole cost and expense, shall operate its business in the Premises in strict compliance with all Environmental Requirements and shall remediate in a manner satisfactory to Landlord any Hazardous Materials released on or from the Premises or the Project by Tenant, its agents, employees, contractors, subtenants or invitees. Tenant shall complete and certify to disclosure statements as requested by Landlord from time to time relating to Tenant's transportation, storage, use, generation, manufacture or release of Hazardous Materials on the Premises. The term "Environmental Requirements" means all applicable present and future statutes, regulations, ordinances, rules, codes, judgments, orders or other similar enactments of any governmental authority or agency regulating or relating to health, safety, or environmental conditions on, under, or about the Premises or the environment, including without limitation, the following: the Comprehensive Environmental Response, Compensation and Liability Act; the Resource Conservation and Recovery Act; and all state and local counterparts thereto, and any regulations or policies promulgated or issued thereunder. The term "Hazardous Materials" means and includes any substance, material, waste, pollutant, or contaminant listed or defined as hazardous or toxic, under any Environmental Requirements, asbestos and petroleum, including crude oil or any fraction thereof, natural gas liquids, liquefied natural gas, or synthetic gas usable for fuel (or mixtures of natural gas and such synthetic gas). As defined in Environmental Requirements, Tenant is and shall be deemed to be the "operator" of Tenant's "facility" and the "owner" of all Hazardous Materials brought on the Premises by Tenant, its agents, employees, contractors or invitees, and the wastes, by-products, or residues generated, resulting, or produced therefrom.

Tenant shall indemnify, defend, and hold Landlord harmless from and against any and all losses (including, without limitation, diminution in value of the Premises or the Project and loss of rental income from the Premises or the Project), claims, demands, actions, suits, damages (including, without limitation, punitive damages), expenses (including, without limitation, remediation, removal, repair, corrective action, or cleanup expenses), and costs (including, without limitation, actual attorneys' fees, consultant fees or expert fees and including, without limitation, removal or management of any asbestos brought into the property by Tenant, its agents, employees, contractors, subtenants, assignees or invitees or disturbed by Tenant, its agents, employees, contractors, subtenants, assignees or invitees in breach of the requirements of this Paragraph 30, regardless of whether such removal or management is required by law) which are brought or recoverable against, or suffered or incurred by Landlord as a result of any release of Hazardous Materials for which Tenant is obligated to remediate as provided above or any other breach of the requirements under this Paragraph 30 by Tenant, its agents, employees, contractors, subtenants, assignees or invitees, regardless of whether Tenant had knowledge of such noncompliance. The obligations of Tenant under this Paragraph 30 shall survive any termination of this Lease.

Landlord shall have access to, and a right to perform inspections and tests of, the Premises to determine Tenant's compliance with Environmental Requirements, its obligations under this Paragraph 30, or the environmental condition of the Premises. Access shall be granted to Landlord upon Landlord's prior notice to Tenant and at such times so as to minimize, so far as may be reasonable under the circumstances, any disturbance to Tenant's operations. Such inspections and tests shall be conducted at Landlord's expense, unless such inspections or tests reveal that Tenant has not complied with any Environmental Requirement, in which case Tenant shall reimburse Landlord for the reasonable cost of such inspection and tests. Landlord's receipt of or satisfaction with any environmental assessment in no way waives any rights that Landlord holds against Tenant.

Landlord represents and warrants that except for information contained in the Phase I Environmental Assessment Reports prepared by LOR Environmental, Inc., and delivered to Tenant in connection with the Prior Lease, Landlord, to Landlord's knowledge without further inquiry, is unaware of any environmental conditions affecting the Premises.

Notwithstanding anything to the contrary in this Paragraph 30, Tenant shall have no liability of any kind to Landlord or any other party and Landlord shall indemnify Tenant as to Hazardous Materials on the Premises caused or permitted by Landlord, its agents, employees, contractors or invitees.

31. **Rules and Regulations.** Tenant shall, at all times during the Lease Term and any extension thereof, comply with all reasonable rules and regulations at any time or from time to time established by Landlord covering use of the Premises and the Project. The current rules and regulations are attached hereto. In the event of any conflict between said rules and regulations and other provisions of this Lease, the other terms and provisions of this Lease shall control. Landlord shall not have any liability or obligation for the breach of any rules or regulations by other tenants in the Project.

32. **Security Service.** Tenant acknowledges and agrees that, while Landlord may patrol the Project, Landlord is not providing any security services with respect to the Premises and that Landlord shall not be liable to Tenant for, and Tenant waives any claim against Landlord with respect to, any loss by theft or any other damage suffered or incurred by Tenant in connection with any unauthorized entry into the Premises or any other breach of security with respect to the Premises.

33. **Force Majeure.** Except for monetary obligations, neither Landlord nor Tenant shall be held responsible for delays in the performance of its obligations hereunder when caused by strikes, lockouts, labor disputes, acts of God, inability to obtain labor or materials or reasonable substitutes therefor, governmental restrictions, governmental regulations, governmental controls, delay in issuance of

permits, enemy or hostile governmental action, acts of terrorism, civil commotion, fire or other casualty, inability to obtain financing due to general economic conditions (as opposed to conditions which are specific to the Landlord or the Project), and other causes beyond the reasonable control of Landlord or Tenant ("Force Majeure").

34. **Entire Agreement.** This Lease constitutes the complete agreement of Landlord and Tenant with respect to the subject matter hereof. No representations, inducements, promises or agreements, oral or written, have been made by Landlord or Tenant, or anyone acting on behalf of Landlord or Tenant, which are not contained herein, and any prior agreements, promises, negotiations, or representations are superseded by this Lease. This Lease may not be amended except by an instrument in writing signed by both parties hereto.

35. **Severability.** If any clause or provision of this Lease is illegal, invalid or unenforceable under present or future laws, then and in that event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby. It is also the intention of the parties to this Lease that in lieu of each clause or provision of this Lease that is illegal, invalid or unenforceable, there be added, as a part of this Lease, a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable.

36. **No Brokers.** Tenant represents and warrants to Landlord, and Landlord represents and warrants to Tenant, that it has dealt with no broker, agent or other person in connection with this transaction and that no broker, agent or other person brought about this transaction, and each of the Parties agrees to indemnify and hold the other party harmless from and against any claims by any other broker, agent or other person claiming a commission or other form of compensation by virtue of having dealt with indemnifying party with regard to this leasing transaction.

37. **Miscellaneous.**

(a) Any payments or charges due from Tenant to Landlord hereunder shall be considered rent for all purposes of this Lease.

(b) If and when included within the term "Tenant," as used in this instrument, there is more than one person, firm or corporation, each shall be jointly and severally liable for the obligations of Tenant.

(c) All notices required or permitted to be given under this Lease shall be in writing and shall be sent by registered or certified mail, return receipt requested, or by a reputable national overnight courier service, postage prepaid, or by hand delivery addressed to the parties at their addresses below. Either party may by notice given aforesaid change its address for all subsequent notices. Except where otherwise expressly provided to the contrary, notice shall be deemed given upon delivery.

(d) Except as otherwise expressly provided in this Lease or as otherwise required by law, Landlord's right to withhold any consent or approval shall not be unreasonably withheld or delayed.

(e) All payments of monetary sums due by Tenant to Landlord hereunder, including, but not limited to, Base Rent and payments of Operating Expenses, shall be deemed to be "rent".

(f) Neither this Lease nor a memorandum of lease shall be filed by or on behalf of Tenant in any public record. Landlord may prepare and file, and upon request by Landlord Tenant will execute, a memorandum of lease.

(g) The normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Lease or any exhibits or amendments hereto.

(h) The submission by Landlord to Tenant of this Lease shall have no binding force or effect, shall not constitute an option for the leasing of the Premises, nor confer any right or impose any obligations upon either party until execution of this Lease by both parties.

(i) Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires. The captions inserted in this Lease are for convenience only and in no way define, limit or otherwise describe the scope or intent of this Lease, or any provision hereof, or in any way affect the interpretation of this Lease.

(j) Any amount not paid by Tenant within 10 days after its due date in accordance with the terms of this Lease shall bear interest from such due date until paid in full at the lesser of the highest rate permitted by applicable law or 10 percent per year. It is expressly the intent of Landlord and Tenant at all times to comply with applicable law governing the maximum rate or amount of any interest payable on or in connection with this Lease. If applicable law is ever judicially interpreted so as to render usurious any interest called for under this Lease, or contracted for, charged, taken, reserved, or received with respect to this Lease, then it is Landlord's and Tenant's express intent that all excess amounts theretofore collected by Landlord be credited on the applicable obligation (or, if the obligation has been or would thereby be paid in full, refunded to Tenant), and the provisions of this Lease immediately shall be deemed reformed and the amounts thereafter collectible hereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder.

(k) Construction and interpretation of this Lease shall be governed by the laws of the State of California, excluding any principles of conflicts of laws.

(l) Time is of the essence as to the performance of Tenant's obligations under this Lease.

(m) All exhibits and addenda attached hereto are hereby incorporated into this Lease and made a part hereof. In the event of any conflict between such exhibits or addenda and the terms of this Lease, such exhibits or addenda shall control.

38. **Landlord's Lien/Subordination.** Provided Tenant is not in default under the Lease, Landlord, at the request of Tenant, agrees to subordinate Landlord's lien, if any, arising under the Lease against Tenant's property or any of Tenant's leased or financed property located on the Premises and agrees that Tenant's property or its leased or financed property shall not become part of the Premises or encumbered by a lien by Landlord regardless of the manner in which the leased or financed property may be attached or affixed to the Premises. Such subordination shall be required only if the lender or lessor shall be a bank or other financial institution or the vendor of Tenant's equipment or a financing entity related to such vendor and shall be subject to such conditions as Landlord may reasonably require. Tenant shall reimburse Landlord for all reasonable out-of-pocket expenses incurred by Landlord in negotiating and executing such agreement with Tenant's lender.

39. **Limitation of Liability of Trustees, Shareholders, Members and Officers of Landlord.** Any obligation or liability whatsoever of Landlord which may arise at any time under this Lease or any obligation or liability which may be incurred by it pursuant to any other instrument, transaction, or undertaking contemplated hereby shall not be personally binding upon, nor shall resort for the enforcement thereof be had to the property of, its members, trustees, directors, shareholders, officers, employees or agents, regardless of whether such obligation or liability is in the nature of contract, tort, or otherwise.

40. **Limitation of Liability of Directors, Shareholders, and Officers of Tenant.** Any obligation or liability whatsoever of Tenant, which may arise at any time under this Lease or any obligation or liability which may be incurred by it pursuant to any other instrument, transaction, or undertaking contemplated hereby shall not be personally binding upon, nor shall resort for the enforcement thereof be had to the property of, its directors, shareholders, officers, employees or agents, regardless of whether such obligation or liability is in the nature of contract, tort, or otherwise.

41. **Civil Code § 1938 Disclosure.** Pursuant to Section 1938 of the California Civil Code, Landlord hereby advises Tenant that as of the date of this Lease, the Premises has not undergone inspection by a Certified Access Specialist (a "CASp"). Further, pursuant to Section 1938 of the California Civil Code, Landlord notifies Tenant of the following: "A Certified Access Specialist (CASp) can inspect the Premises and determine whether the Premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the Premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the Premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant." The parties shall mutually agree on the arrangements for the time and manner of any such CASp inspection. Landlord and Tenant hereby mutually agree that the cost of the CASp inspection will be borne by Tenant, and that Tenant shall be responsible for the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the Premises.

42. **Energy Disclosure Requirements.** Tenant will cooperate with Landlord in all reasonable respects to enable Landlord to comply with its obligations under AB-802 (or any successor statute, or any regulations promulgated thereunder, or any similar State or City law) relating to energy disclosures, and the measurement of energy efficiency by the State Resources Conservation and Development Commission and/or the Public Utilities Commission, including delivering information regarding Tenant's energy consumption to Landlord in a format compatible with the U.S. EPA's Energy Star Portfolio Manager. Tenant hereby specifically authorizes Moreno Valley Utility to release to Landlord any information requested by Landlord relative to Tenant's energy consumption at the Premises.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the Effective Date.

LANDLORD:

**HF LOGISTICS-SKX T2, LLC, a Delaware
limited liability company**

By: HF Logistics I, LLC, a Delaware limited
liability company

By: _____
Iddo Benzeevi, President and
Chief Executive Officer

Address:

14225 Corporate Way
Moreno Valley, CA 92553

TENANT:

SKECHERS U.S.A., INC., a Delaware corporation

By: _____
David Weinberg, Chief Operating Officer

Address:

228 Manhattan Beach Blvd.
Manhattan Beach, CA 90266

RULES AND REGULATIONS

1. The sidewalk, entries, and driveways of the Project shall not be obstructed by Tenant, or its agents, or used by them for any purpose other than ingress and egress to and from the Premises.

2. Tenant shall not place any objects, including antennas, outdoor furniture, etc., in the parking areas, landscaped areas or other areas outside of its Premises, or on the roof of the Project.

3. Except for seeing-eye dogs, no animals shall be allowed in the offices, halls, or corridors in the Project.

4. Tenant shall not disturb the occupants of the Project or adjoining buildings by the use of any radio or musical instrument or by the making of loud or improper noises.

5. Except as otherwise set forth in the Lease, if Tenant desires telegraphic, telephonic or other electric connections in the Premises, no boring or cutting of wires will be permitted without Landlord's prior consent, which shall not be unreasonably withheld or delayed. Any such installation or connection shall be made at Tenant's expense.

6. Tenant shall not install or operate any steam or gas engine or boiler, or other mechanical apparatus (except for Tenant's material handling system) in the Premises, except as specifically approved in the Lease. The use of oil, gas or inflammable liquids for heating, lighting or any other purpose is expressly prohibited. Explosives or other articles deemed extra hazardous shall not be brought into the Project.

7. Parking any type of recreational vehicles is specifically prohibited on or about the Project. Except for the overnight parking of operative vehicles and except as permitted in the Lease, no vehicle of any type shall be stored in the parking areas at any time. In the event that a vehicle is disabled, it shall be removed within 48 hours. There shall be no "For Sale" or other advertising signs on or about any parked vehicle. All vehicles shall be parked in the designated parking areas in conformity with all signs and other markings. All parking will be open parking, and no reserved parking, numbering or lettering of individual spaces will be permitted except as specified by Landlord.

8. Tenant shall maintain the Premises free from rodents, insects and other pests.

9. Landlord reserves the right to exclude or expel from the Project any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs or who shall in any manner do any act in violation of the Rules and Regulations of the Project.

10. Tenant shall not cause any unnecessary labor by reason of Tenant's carelessness or indifference in the preservation of good order and cleanliness. Landlord shall not be responsible to Tenant for any loss of property on the Premises, however occurring, or for any damage done to the effects of Tenant by the janitors or any other employee or person.

11. Tenant shall give Landlord prompt notice of any defects in the water, lawn sprinkler, sewage, gas pipes, electrical lights and fixtures, heating apparatus, or any other service equipment affecting the Premises.

12. Except as otherwise set forth in the Lease, Tenant shall not permit storage outside the Premises, including without limitation, outside storage of trucks and other vehicles, or dumping of waste or refuse or permit any harmful materials to be placed in any drainage system or sanitary system in or about the Premises.

13. All moveable trash receptacles provided by the trash disposal firm for the Premises must be kept in the trash enclosure areas, if any, provided for that purpose.

14. No auction, public or private, will be permitted on the Premises or the Project without Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed.

15. No awnings shall be placed over the windows in the Premises except with the prior written consent of Landlord.

16. The Premises shall not be used for lodging, sleeping or cooking (except for microwave usage) or for any immoral or illegal purposes or for any purpose other than that specified in the Lease. No gaming devices shall be operated in the Premises.

17. Tenant shall ascertain from Landlord the maximum amount of electrical current which can safely be used in the Premises, taking into account the capacity of the electrical wiring in the Project and the Premises and the needs of other tenants, and shall not use more than such safe capacity. Landlord's consent to the installation of electric equipment shall not relieve Tenant from the obligation not to use more electricity than such safe capacity.

18. Tenant assumes full responsibility for protecting the Premises from theft, robbery and pilferage.

19. Tenant shall not install or operate on the Premises any machinery or mechanical devices of a nature not related to Tenant's use of the Premises as permitted under the Lease.

BASE RENT

Base Rent shall be computed as set forth below:

The Monthly Base Rent as of the Effective Date shall be computed by multiplying \$.61 psf by the number of rentable square feet in the Premises (\$457,500 based on 750,000 rentable square feet). The Monthly Base Rent shall increase by 2.5% on the first day of the 13th full calendar month after the Effective Date, and shall increase again by 2.5% on each 12-month anniversary thereafter during the next five (5) years, and 3% thereafter. It is understood and agreed that no Monthly Base Rent shall be payable (other than the prepaid Base Rent due on the Effective Date pursuant to Paragraph 4 of the Lease) until the Commencement Date. The Monthly Base Rent payable as of the Commencement Date shall be determined using the foregoing computations.

* The foregoing Monthly Base Rent amounts are based upon the Premises containing 750,000 rentable square feet of space, and are therefore subject to adjustment as set forth in Paragraph 1 of Addendum 3.

CONSTRUCTION

CONSTRUCTION OF PREMISES

1. Standard Specifications and Final Plans; Change Orders.

(a) Preparation of Final Plans. Landlord shall furnish or perform, at Landlord's sole cost and expense, those items of construction and those improvements ("Landlord Improvements") provided for in the Building Design Criteria, together with the addendum thereto (collectively the "Specifications") attached as Exhibit "B". Landlord shall provide Tenant with final working drawings and specifications for the Landlord Improvements (the "Final Plans") which are consistent with the Specifications. Tenant shall respond promptly to any inquiries by Landlord during the development of the Final Plans and, to the extent requested by Landlord, shall cooperate with Landlord and Landlord's architect in developing the Final Plans. When Landlord requests Tenant to specify details or layouts, Tenant shall promptly specify same within ten (10) days thereafter so as not to delay completion of the Final Plans or the Landlord Improvements. Tenant shall pay to Landlord upon demand all increased costs incurred by Landlord in completing the Final Plans to the extent such costs are attributable to any such Tenant-caused delays.

(b) Change Orders. The Specifications define the entire scope of Landlord's obligation to construct or provide the Landlord Improvements. Tenant shall not be entitled to specify or designate any finishes, grades of materials, or other specifications or details of the construction of the Landlord Improvements which are not specifically provided for in or contemplated by the Specifications unless requested to do so by Landlord. Subject to this paragraph, however, Landlord shall make additions or changes to the Specifications requested by Tenant. If Tenant shall desire any such changes, Tenant shall so advise Landlord in writing (a "Change Order Request") as promptly as possible so as not to delay the orderly development of the Final Plans. All reasonable costs incurred by Landlord in having any Change Order Request reviewed and evaluated shall be reimbursed by Tenant upon demand. Such costs shall include, but not be limited to, the reasonable costs of architects, engineers, and consultants in reviewing and designing any such changes and the cost of contractors in providing cost estimates and constructability, functionality and product availability analyses. Tenant acknowledges and agrees that (i) Landlord shall not be obligated to accept any Change Order Request if in the reasonable judgment of Landlord the requested change would have an adverse effect on the quality, useful life, value, functionality or costs of operating or maintaining the Landlord Improvements; (ii) Tenant shall bear all costs and expenses associated with incorporating into the Final Plans and the Landlord Improvements any Change Order Request accepted by Landlord, including without limitation an administrative fee to Landlord equal to 10 percent of the increased cost resulting from such change (and Tenant shall pay such costs to Landlord, in advance as provided below); (iii) Landlord shall not be obligated to accept the least expensive method of incorporating the requested change if in the reasonable judgment of Landlord, such method does not incorporate sound construction practices; (iv) if the Change Order Request affects the roof, slab, structural components or systems or equipment to be installed within the Landlord Improvements or the future serviceability of the Landlord Improvements, and the Landlord determines that in order to lease the building to any subsequent tenant, additional work will have to be done to remove the effect of such change, the anticipated costs of restoring the Landlord Improvements to the condition it would have been in but for such change will also be paid in advance by the Tenant as a condition to Tenant's change, as provided below; and (v) to the extent Tenant specifies any items which have not been recommended by Landlord, Tenant assumes full responsibility for their performance. Upon agreement between Landlord and Tenant on the change that will be incorporated into the Final

Plans and Landlord Improvements as a result of a Change Order Request, and the cost of such change, the Landlord and Tenant shall execute a change order (a "Change Order") setting forth the parties' agreement as to such terms. Payment of the Change Order cost shall be due from Tenant within 30 days of the mutual execution of the Change Order.

(c) Approval of Final Plans. Landlord shall submit the Final Plans to Tenant for its approval and Tenant shall advise Landlord, within 5 days thereafter, of its approval or disapproval of such Final Plans. Tenant's right to disapprove the proposed Final Plans ("Objection") shall be limited to material inconsistencies with the Specifications and any Change Orders then entered into, and noncompliance with or violation of applicable laws, codes, ordinances or other legal requirements. If Tenant shall not make an Objection to the proposed Final Plans or any element or aspect thereof within the 5 day period set forth above, then such Final Plans or the portions not objected to by Tenant shall be deemed approved. Resolution of any Objection by Tenant to the Final Plans shall be governed by Paragraph 3 below.

(d) Commencement of Construction Before Final Plans. Landlord may commence construction prior to finalization of the Final Plans and Tenant agrees that it shall cooperate with Landlord in reviewing and approving portions of the Final Plans for different stages or elements of the work so that construction can proceed on a "fast track" basis. The approval process for such portions of the Final Plans shall be substantially as set forth above, provided, however, that any Objection may not be inconsistent with the previously approved portions of the Final Plans.

(e) Change Orders During Construction. In the event that subsequent to the completion and approval of the Final Plans, Tenant desires to make a change in the work provided for therein, the parties shall proceed in accordance with the foregoing provisions relating to changes requested during the development of the Final Plans.

2. Landlord and Tenant Representatives. Landlord hereby designates Patrick Revere to serve as Landlord's representative and Tenant hereby designates Paul Galliher to serve as Tenant's representative during the design and construction of the Landlord Improvements. Either party may change its representative by notice to the other party. All communications between Landlord and Tenant relating to the design and construction of the Initial Improvements shall be forwarded to or made by such party's representative. In addition, no Change Order shall be binding on Landlord unless executed by Landlord's Representative and no Change Order shall be binding on Tenant unless executed by Tenant's Representative.

3. Dispute Resolution.

(a) Conference of Senior Representatives. The parties shall make good faith efforts to resolve any dispute which may arise under this Addendum in an expedient manner. In the event, however, that any dispute arises, either party may notify the other party of its intent to invoke the dispute resolution procedure herein set forth by delivering written notice to the other party. In such event, if the parties' respective representatives are unable to reach agreement on the subject dispute within 10 business days after delivery of such notice, then each party shall, within 5 business days thereafter, designate a senior executive officer of its management to meet at a mutually agreed location to resolve the dispute.

(b) Arbitration. Should any dispute arise between Landlord and Tenant with respect to any matters set forth in this Addendum 2 or otherwise relating to the construction of the Improvements, which is not resolved within the time period set forth in Paragraph 3(a) above, the parties shall submit such dispute to final and binding arbitration to be administered in accordance with the Streamlined Arbitration Rules and Procedures of JAMS (Judicial Arbitration and Mediation Service). Unless the

parties mutually agree otherwise, the arbitration shall take place at a JAMS Resolution Center in Los Angeles County, California, the arbitration shall be conducted by one arbitrator (who must be disinterested and independent of the Members), and the arbitrator shall award attorneys' fees and the costs of arbitration (JAMS fees and the fees of the arbitrator) to the prevailing party. The decision of the arbitrator (the "**Determination**") shall be binding and conclusive on the parties, except to the extent that appeals are permitted under California Code of Civil Procedure §1286.2. After the Determination, subject to any cure rights set forth in this Agreement, the prevailing party under the Determination may enforce its rights under this Agreement notwithstanding the filing or pendency of any appeal, but such party shall be responsible for any damages caused as a result of the taking of such action if the Determination is eventually set aside on appeal and either the court renders a decision on the merits in favor of the appealing party, or the appealing party is eventually the prevailing party in any subsequent arbitration proceeding. The arbitration award may be enforced in accordance with California Code of Civil Procedure §1285, et seq. or the Federal Arbitration Act (9 U.S.C. §1, et seq.). To the extent that matters of law are to be considered by the arbitrator, California law shall apply. Nothing herein shall prohibit a party from seeking a provisional remedy from a court of competent jurisdiction (e.g., a temporary restraining order or preliminary injunctive relief) pending the results of any such arbitration.

4. Tenant's Installations. Subject to applicable ordinances and building codes governing Tenant's right to occupy or perform in the Premises, and to the provisions of the Lease regarding Tenant-Made Alterations, which apply to the Tenant's initial installations before Substantial Completion as well as any after Substantial Completion, Tenant shall be allowed to install its improvements, machinery, equipment, fixtures, or other personal property on the Premises when, in Landlord's opinion, such installation will not interfere with Landlord's completion of construction or increase the cost thereof. Tenant does hereby agree to assume all risk of loss or damage to its machinery, equipment, fixtures, and other personal property, including any loss or damage resulting from the negligence of Landlord and to indemnify, defend, and hold Landlord harmless from any and all liability, loss, or damage arising from any injury to the property of Landlord, its contractors, subcontractors, or materialmen, and any death or personal injury to any person or persons arising out of such occupancy or installation. All of Tenant's installation work shall be coordinated with Landlord's general contractor. Prior to commencement of any such installation work by Tenant, Landlord shall be furnished with evidence that Tenant's contractors have obtained and maintain adequate insurance to protect the Landlord and its related parties from any liability resulting from such installation work. Landlord shall receive a certificate of insurance evidencing such insurance coverage, which shall indicate that Landlord is an additional insured. To the extent Tenant uses any of Landlord's contractors or subcontractors in connection with the installation of its improvements, Tenant acknowledges and agrees that Landlord's work shall take priority over that of the Tenant and that Tenant shall not divert Landlord's contractors or subcontractors from the performance of their work obligations for Landlord.

5. Substantial Completion.

(a) Determination of Substantial Completion. Landlord shall diligently proceed with the construction of the Landlord Improvements to achieve Substantial Completion, provided that such commencement of construction shall not be more than eighteen (18) months after the Effective Date. "Substantial Completion" shall be deemed to have occurred on the date upon which the architect who prepared the Final Plans ("Architect of Record") certifies that the Landlord Improvements have been completed in substantial accordance with the Final Plans subject only to completion of punch list items which do not materially interfere with the utilization of the Landlord Improvements for the purposes for which they were intended.

(b) Inspection and Punch List. As soon as Substantial Completion has been achieved, Landlord shall notify Tenant in writing of the date certified by the Architect of Record as the date of Substantial Completion. Within 15 business days following the date of Substantial Completion, Landlord and Tenant shall jointly inspect the Landlord Improvements and agree upon a punch list of items in accordance with the Final Plans needing completion or correction. Landlord shall use all reasonable diligent efforts to complete all punch list items within 45 days after agreement upon the punch list, subject, however, to long lead time items which must be ordered and to seasonal requirements for any landscaping and exterior work.

(c) Acceptance. Within 10 days after the Commencement Date, Tenant shall, upon demand, execute and deliver to Landlord a letter of acceptance of delivery of the Premises and confirmation of the Commencement Date. If Tenant occupies any portion of the Premises prior to Substantial Completion, the terms of this Lease shall apply to such occupancy or use of the Premises by Tenant. Except for incomplete punch list items referred to above, Tenant upon the Commencement Date shall have and hold the Premises as the same shall then be without any liability or obligation on the part of Landlord under this Lease for making any further alterations improvements of any kind in or about the Premises during the Lease Term, or any extension or renewal thereof.

(d) Tenant-Caused Delay. If Substantial Completion is delayed as a result of Tenant Change Orders, Tenant's interference with the construction of the Landlord Improvements and/or the Tenant Improvements, delays resulting from Tenant's using Landlord's contractors and/or subcontractors to complete Tenant's installations), or Tenant's failure to promptly respond to Landlord's request to specify details or layouts or other matters, or Tenant's improperly failing or refusing to fund its share of the cost of Tenant Improvements, as set forth in Paragraph 6 below, then the Commencement Date shall be deemed to have occurred when, in the opinion of the Architect of Record, Substantial Completion would have otherwise occurred and any additional costs incurred by Landlord in completing the Landlord Improvements and/or the Tenant Improvements which are a result of such Tenant-caused delays shall be reimbursed by Tenant upon demand by Landlord.

6. Tenant Improvements.

(a) In addition to the construction of the Landlord Improvements as described above, Landlord agrees to construct those tenant improvements (the "Tenant Improvements") which are requested by Tenant prior to the mutual approval of the Drawings (as defined below).

(b) Landlord shall pay for the Tenant Improvements by providing an allowance (the "Allowance") up to a maximum amount of \$3,880,000 (\$5.07 psf, exclusive of the area to be subleased to Highland Fairview (or one of its Affiliates)), and Tenant shall pay for the cost of the Tenant Improvements in excess of such amount. Provided, however, that the obligation of Landlord to pay for any Tenant Improvements in excess of \$2,880,000 are contingent upon there being any funds left after the construction of the Building has been completed in the "contingency" line item of the Development Budget, as defined in the Development Management Agreement between Landlord and HFC Holdings, LLC (not to exceed \$1,000,000) (such amount, the "Contingent Allowance"). If after the Drawings (as defined below) have been mutually agreed upon and Tenant has approved the bids for the Tenant Improvements, the cost of the Tenant Improvements is estimated to exceed \$2,880,000, prior to Landlord's commencement of construction of the Tenant Improvements, Tenant shall deposit the difference (between the total estimated cost of the Tenant Improvements and \$2,880,000) into an escrow account with First American Title Insurance Company or another mutually agreeable escrow company ("Escrow Holder"). The parties shall execute joint escrow instructions to the Escrow Holder which shall also be acceptable to Escrow Holder (including any "general escrow instructions" reasonably required by Escrow Holder), and which shall provide that the funds shall be distributed from escrow only upon joint written instructions from Landlord and Tenant. The cost of the escrow shall be paid one-half by Landlord and one-half by Tenant.

The first \$2,880,000 of the Allowance shall be applied against the actual cost of the Tenant Improvements, as such costs are incurred by Landlord. After such amount has been fully applied, Landlord shall give notice to Tenant, and any additional costs of the Tenant Improvements shall be paid from escrow. No more frequently than monthly, Landlord shall submit to Tenant a demand for a disbursement from escrow, together with copies of invoices or other documentation which shows the costs of the Tenant Improvements covered by such demand. Unless Tenant disputes that such costs are due and payable, within ten (10) days after receipt of such demand from Landlord, Tenant shall give Escrow Holder written instructions to disburse the amount requested (which instructions shall be joined by Landlord). If Tenant disputes the amount due, it shall direct the disbursement of any amounts not in dispute, and shall specify the basis for any disputed amounts. If Landlord agrees with the dispute, Landlord will seek to resolve the dispute with the general contractor or any applicable subcontractors. If Landlord does not agree with the dispute, Landlord shall authorize Tenant to deal directly with the general contractor or any applicable subcontractors to seek to resolve the dispute. Any costs or expenses incurred by Landlord which result from a dispute which is not resolved in favor of the Tenant shall be paid or reimbursed by Tenant to Landlord on demand. If the Property is encumbered by any mechanics lien as a result of a dispute by Tenant which is not agreed to by Landlord, Tenant shall, at its expense, promptly pay-off or bond around such lien.

After final completion of the Landlord Improvements or the Tenant Improvements, the Tenant Improvements shall be reconciled with the total amount applied from the Allowance and the total amount disbursed to Landlord from escrow. If the total cost of the Tenant Improvements exceeded \$2,880,000, and if any portion of the Contingent Allowance is available, then such amount, not to exceed \$1,000,000, shall be promptly paid by Landlord to Tenant.

If after approval of the Drawings (as defined below), Tenant shall desire any changes to the Tenant Improvements it shall follow the procedure for Change Orders described in Paragraph 1(b) above. Any and all costs of reviewing any Change Order Request relative to the Tenant Improvements, and any and all costs of making any changes to the Tenant Improvements which Tenant may request and which Landlord shall approve shall be at Tenant's sole cost and expense, and shall be paid to Landlord upon demand and before commencement of the work covered by the Change Order.

Landlord shall proceed with and complete the construction of the Tenant Improvements in a good and workmanlike manner in accordance with all legal requirements and any Drawings prepared and approved by the parties as described below. The construction of the Tenant Improvements shall, to the extent possible, be coordinated with the construction of the Landlord Improvements. The Landlord Improvements shall not be deemed to have achieved Substantial Completion until the Tenant Improvements shall also have been Substantially Completed (also to be based upon the opinion of the Architect of Record).

The Landlord and Tenant shall work together to prepare designs and construction drawings (collectively, the "Drawings") for the Tenant Improvements and any such Drawings must be mutually approved by Landlord and Tenant before work is commenced. The cost of such designs and drawings shall be part of the allowance described above. After the Drawings are mutually approved, the Tenant Improvements will be put out to bid, and the amount of the bids will be presented to Tenant for approval. Landlord will competitively bid all Tenant Improvements and will disclose such bids to Tenant on an "open book" basis. The Tenant Improvements will not be constructed until Tenant has approved the bids.

MISCELLANEOUS PROVISIONS

1. **Measurement of Premises.** After completion of construction of the Building and Improvements, and prior to the Commencement Date, Landlord shall cause its architect to measure the rentable space in the Building and deliver to Tenant a written certificate certifying the correct dimension of the Building. The measurement shall be made in accordance with current BOMA standards for measurement of industrial buildings. Upon the determination of the actual floor area of the Building, the Base Rent payable by Tenant hereunder shall be adjusted to reflect the floor area of the Building.

2. **Tax Proration.** Landlord shall, at its expense, use its best efforts to have the Premises separately assessed from any contiguous land which it owns. If the Premises are assessed as part of a larger tax parcel (a "Tax Parcel"), Tenant shall pay to Landlord a proportionate amount of all Taxes attributable to such Tax Parcel and the Building and Improvements thereon in the manner hereinafter provided. When Tenant is required to pay a proportionate share of Taxes to Landlord, the same shall be paid to Landlord within twenty (20) days following receipt of Landlord's written notification that such taxes and assessments are due. Landlord's written notification shall be forwarded to Tenant not later than thirty (30) days prior to the date such taxes and assessments shall be due and shall be accompanied by a copy of the tax bill or certificate and such additional information as Tenant may reasonably require to show how Tenant's proportionate share of such taxes and assessments was calculated, Tenant's proportionate share of such taxes and assessments shall be determined by Landlord on an equitable basis, considering the respective land areas of the separate parcels which make up the Tax Parcel and the respective leasable areas of any buildings constructed thereon.

3. **Net Lease.** It is the intention of the parties hereto that the obligations of Tenant hereunder shall be separate and independent covenants and agreements, and that Base Rent, reimbursement of Operating Expenses and all other sums payable by Tenant hereunder shall continue to be payable in all events, and that the obligations of Tenant hereunder shall continue unaffected, unless the requirement to pay or perform the same shall have been terminated pursuant to an express provision of this Lease. This is a net lease and Base Rent, reimbursement of Operating Expenses and all other sums payable hereunder by Tenant shall be paid without notice or demand, and without setoff, counterclaim, recoupment, abatement, suspension, deferment, diminution, deduction, reduction or defense, except as otherwise specifically set forth herein. This Lease shall not terminate and shall not have any right to terminate this Lease, during the Lease Term, except as otherwise expressly provided herein. Tenant agrees that, except as otherwise expressly provided herein, it shall not take any action to terminate, rescind or avoid this Lease for any reason, including (i) the bankruptcy, insolvency, reorganization, composition, readjustment, liquidation, dissolution, winding-up or other proceeding affecting Landlord (ii) under any mortgage or deed of trust which may now or hereafter encumber the Premises (iii) any action with respect to this Lease (including the rejection hereof) which may be taken by Landlord under the Federal Bankruptcy Code or by any trustee, receiver or liquidator of Landlord or by any court under the Federal Bankruptcy Code or otherwise, (iv) the Taking of the Premises or any portion thereof, (v) the prohibition of restriction of Tenant's use of the Premises or any portion thereof, (vii) the eviction of Tenant from possession of the Premises, by paramount title or otherwise, or (viii) default by Landlord hereunder on any other agreement between Landlord and Tenant. Tenant waives all rights which are not expressly stated herein but which may now or hereafter otherwise be conferred by law to quit, terminate or surrender this Lease or the Premises; to any setoff, counterclaim, recoupment, abatement, suspension, deferment, diminution, deduction, reduction or defense of or to Base Rent, reimbursement of Operating Expenses or any other sums payable under this Lease, and for any statutory lien or offset right against Landlord or its property, each except as otherwise expressly provided herein.

4. **Statements.** Tenant shall submit to Landlord (a) one hundred twenty (120) days of the end of each fiscal year of Tenant annual balance sheets, income and cash flow statements for Tenant, certified by an independent public accountant and (ii) within 90 days of the end of each fiscal year, gross sales figures at the Premises during such fiscal year, certified by the senior financial officer of Tenant. Quarterly 10Qs as filed with the Securities and Exchange Commission shall satisfy the requirements contained in subparagraph (i) herein. Copies of the 10Ks filed with the Securities and Exchange Commission will satisfy the requirement contained in subparagraph (ii). The obligations of Tenant shall continue whether or not this Lease shall have been assigned (unless Tenant has been released from liability hereunder). To the extent that any information provided by Tenant to Landlord pursuant to this Paragraph is not otherwise available to the general public, Landlord shall keep such information confidential and shall only disclose such information to Landlord or Landlord's Lender if any, and their respective agents, partners, members, employees, attorneys, accountants, brokers and potential purchasers and investors, unless otherwise required by a court order.

SITE PLAN

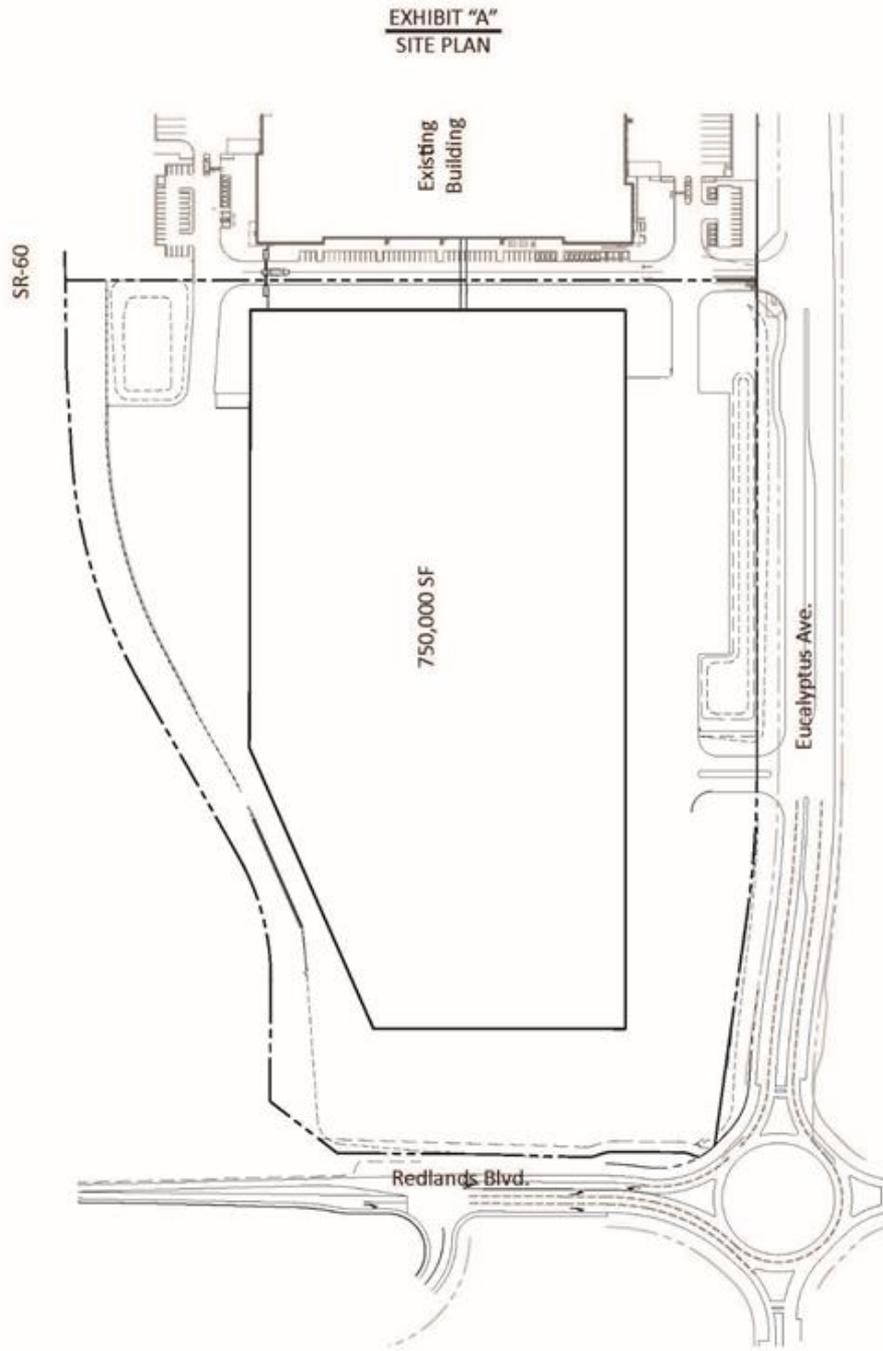


Exhibit "A"-1

Building Design Criteria



750,000 SF Distribution Facility
Rancho Belago, CA

Prepared for:

Skechers U.S.A
228 Manhattan Beach Blvd.
Manhattan Beach, CA 90266
P: 909.390.1619

Prepared by:

 Highland Fairview
14225 Corporate Way
Moreno Valley, Ca 92553
P: 714.824.8037
E: prevere@highlandfairview.com
Revised: 11/29/2018

1. GENERAL BUILDING DESIGN:

- a. **Total Building Area:** 750,000 SF
- b. **Building Dimensions** (Approx. excluding pop-out): 650' x 1,150'
- c. **Site Size:** 1,540,000 SF (35.3 AC)
- d. **Dock Height:** 48"
- e. **Clear Height:** 45' behind the first column line
- f. **Doors:**
 - i. Drive-in Doors: 4
 - ii. Dock Doors: 70
- g. **Parking Requirements:**
 - i. Auto Parking Provided: 295 Stalls
 - ii. Additional Trailer Parking Provided: 70 Spaces (12'x53')
- h. **Max ridge height:** 50'
- i. **Bay Spacing:**
 - i. 60' speed bay, 50' typical bay spacing perpendicular to dock doors
 - ii. 58'-10" bay typical parallel to dock doors, odd bay at end per plan

2. CONSTRUCTION TYPE:

- a. IIIB per 2016 CBC
- b. ESFR using FM Approved K-25 heads w/ electric or diesel fire pump (Fire protection contractor to determine if pump is required)
- c. Concrete tilt-up wall construction, steel truss hybrid roof structure with wood deck and TPO roofing

3. OCCUPANCY CLASSIFICATION:

- a. B (Office)
- b. S-1 (Storage)
 - i. Designed for future High Pile Storage commodities I-IV and carton non-expanded plastics (separate permit required)

4. APPLICABLE CODES:

- a. 2016 California Building Code
- b. 2016 California Electrical Code
- c. 2016 California Mechanical Code
- d. 2016 California Plumbing Code
- e. 2016 California Energy Code
- f. 2016 California Fire Code
- g. 2016 California Green Building Standards Code
- h. 2016 NFPA Fire Alarm

- i. 2016 NFPA Fire Sprinkler
- j. American with Disabilities Act

5. SITE WORK:

- a. **Soils Report:** Provided by Leighton Associates, to be considered part of the construction documents, all paving sections below are minimum requirements, general contractor to review soils report for specific site requirements and requirements above these minimum specifications.
- b. Pad to be dock high, import/export as necessary per grading plan
- c. Concrete paving on site per soils report
- d. Concrete paving at truck yard and truck drives to be unreinforced Minimum 6" thick concrete paving, with minimum 3,000 psi compressive strength at 28 days, control/construction joints at 15' o.c. max, with equal sides
- e. Concrete paving at auto stall and auto drives to be unreinforced Minimum 5" thick concrete paving, with minimum 3,000 psi compressive strength at 28 days, control/construction joints at 15' o.c. max, with equal sides
- f. The control and construction joint spacing to be a maximum of 15'-0" o.c. Provide 3/4" diameter x 16" long smooth dowels spaced at 12" o.c. at all construction joints
- g. Concrete sidewalks to be minimum 4" thick
- h. 6" high concrete curbs to be provided at auto parking and drive areas
- i. 12" high concrete curbs to be provided at truck yard
- j. Provide screen walls, fencing, gates and trash enclosures per architectural plan

6. ROOF FRAMING SYSTEM:

- a. **Roof Slope:** 1/8" per 1' minimum
- b. **Hybrid Steel Truss Panelized Wood Roof Joist Load Design:**
 - i. Steel Joist Dead Load = 12 PSF
 - ii. Steel Girder Dead Load = 14 PSF
 - iii. Steel Joist/Girder Live load (reducible)= 20 PSF
- c. All structural steel trusses to be prime painted "dark grey" by the truss manufacturer. All steel ledgers to be "gray" prime painted to match the steel trusses. General contractor to touch up all exposed structural steel in field.
- d. Roof will accommodate a 4 psf solar load over the entire building
- e. A 400 lbs point load at the bottom chord of the truss will be included to accommodate sprinkler loads. (Fire Sprinklers will be design build as noted in section 22 of this specification)
- f. All structural steel roof support columns to be tube steel columns as per Structural Drawings.

g. Roof Sheathing:

- i. Provide for 1/2" min. thick roof sheathing, unless otherwise specified by the Structural Engineer.
- ii. Provide for roof sheathing Moisture Inspection interior/exterior by an inspector approved by the roofing inspector, prior to any roofing membrane installation, as required by owner's roofing consultant.
- h.** All seismic straps/steel tubes to be designed below the roof sheathing.
- i.** All roof diaphragm nails are to be galvanized screw shank (with glue coat).
- j.** All sub-purlin hangers to be galvanized with a medium level corrosion protection.

7. SMOKE HATCH/ SKYLIGHTS:

- a.** Provide 1.33% total of building area, with 48"x96" wood curb mounted smoke hatch/skylights with 360° fusible link to be verified by Design-Build Fire Sprinkler Contractor and Fire Department Requirements. Provide UL 793 listed smoke-hatches
- b.** Provide 1.67% total of building area, with 48"x96" wood curb mounted skylights

8. ROOF ACCESS:

- a.** Provide (1) roof access ladder(s) to meet OSHA Requirements with locking device, location per plan.

9. ROOFING:

- a. Mechanically fastened 60 mil TPO single ply membrane over 1/2" thick dens-decking 20 year "NDL" warranty is included, unless otherwise specified by the Structural Engineer.
- b. Provide built-up crickets at skylights to provide drainage around skylights, or any other mechanical equipment mounted on roof.
- c. Provide cap sheet at Conditioned spaces if required per CalGreen and Local jurisdiction.

10. INSULATION:

- a. **Roof Insulation:** Provide white – faced scrim foil at underside of roof-deck, typ.

11. FOUNDATION:

- a. All foundations to be minimum 3,000 psi concrete, unless specified by the structural engineer

12. BUILDING FLOOR SLAB:

- a. Dock height per section 1 – General Building Design
- b. Slab to be 7" thick 4,500 PSI at 28 days concrete design mix to allow for 1 1/2" maximum aggregate size with concrete slump to be 4" plus or minus 1". Un-reinforced slab.
- c. Provide 3/4" diameter x 16" long smooth greased dowels spaced at 12" o.c. at all construction joints or alternatively provide 1/4" x 4 1/2" x 4 1/2" @ 18" o.c. diamond shaped plate dowels unless noted otherwise on structural drawings. Provide 3/4" diameter x 16" long smooth dowels at 24" o.c. placed in dowel baskets at all control joints unless noted otherwise on structural drawings.

Note: Tenant shall provide Landlord 90 days before the issuance of building permits any modifications required to the floor slab, including footings below the slab, required for the Tenants Material Handling Equipment (MHE). Landlord will deliver the floor in accordance with this spec and the requested modification from the tenant and the tenants rack designer / installer. Costs associated with modification to the slab will be credited against tenants TI allowance in accordance with Addendum 2 of the lease.

- d. All floor slabs to be placed on compacted native soil, unless stated otherwise in the Soils Report.
- e. **Finish:** Provide “burnished” floor finish throughout entire warehouse floor slab.
- f. **Floor Flatness:** Ff = 50 (local minimums FF34)
- g. **Floor Levelness:** Fl = 35 (local minimums FL24)
- h. **Control Joints:** Saw cut control joints must be 1-1/4” minimum depth as soon as the slab will support the weight of the saw and operator without disturbing the final finish.
- i. **Floor Joint Spacing:** To be 18’-0” maximum center to center at Office and Warehouse floor slabs.
- j. Floor slab to be wet cured with an approved protective wet covering for a minimum period of 7 days.
- k. Sub-grade compaction under floor slab to be 95% minimum for the upper most 12”, unless stated otherwise in the Soils Report. (in order to achieve a bearing pressure of 2,000 PSF minimum)
- l. All equipment used on the floor slab during the construction phase of work shall be properly protected (diapered and non-marking tires) to prohibit oils from leaking on the floor slab.
- m. Provide 10’-0” wide perimeter floor pour strips at all truck dock walls and 3’-1 1/2” wide at all other walls, unless noted otherwise on structural drawings. No underground piping, conduits, etc. allowed in pour-strip at dock doors to allow for current and future recessed dock levelers.
- n. All floor slab nail or brace frame holes to be filled with approved 2-part epoxy compound to match concrete color. Pega Bond LV 2000, Burke Epoxy Injection Resin or equal.
- o. All floor slab panel form nail holes to be predrilled and wood doweled prior to nailing. Brace holes to be predrilled.
- p. Provide diamond control joints at all columns unless noted otherwise on structural drawings
- q. Chamfer and reveal strips attached to floor slab must be properly patched prior to sealing floor slab.
- r. Provide alternate to fill all construction joints and control joints with semi-rigid epoxy joint filler MM-80, or an approved equal (in writing by the Architect).
- s. Floor includes a floor sealer
- t. Slab will be designed accommodate the wire guided system
- u. Seismic zone: Site Class Definition “D”
- v. Floor Slope will be 0%

13. CONCRETE WALL PANELS:

- a. **Concrete Panels:** Panel thickness, reinforcing, and concrete psi as per structural drawings.
- b. All wall panels are to be tied with rebar into floor slab as determined by the Structural Engineer.
- c. All concrete tilt-up wall panels must be lifted from building exterior.
- d. Properly sack all wall lift point pockets once walls have been erected.

14. GLAZING:

- a. All exterior glazing to be low e dual glazed Medium Performance Glass set in rear glazed aluminum system. Systems to be wet sealed and designed for CBC code minimum wind loads.
- b. Storefront framing to be design build by general contractor

15. OVERHEAD DOORS:

- a. **Dock Doors:**
 - i. 9'x10' sectional overhead with vision glazing, 2" 24 GA
 - ii. Door track protection at all doors
 - iii. Provide 3" x3" x 1/4" steel angle at dock sill, and galvanized steel 3/16" bent metal plate jamb guards 5' high A.F.F.
 - iv. Designed for CBC 2016 code minimum wind load exposure
 - v. Manual operation
 - vi. Prefinished by manufacturer – white
 - vii. Provide bollards at each dock door
- b. **Drive Thru Doors:**
 - i. 12'x14' sectional overhead with vision glazing, 2" 24 GA
 - ii. Provide bollards per plan (4 per door)
 - iii. Provide 3" x3" x 1/4" steel angle at dock sill, and galvanized steel 3/16" bent metal plate jamb guards 5' high A.F.F.
 - iv. Designed for CBC 2016 code minimum wind load exposure
 - v. Prefinished by manufacturer – white

16. EXTERIOR MAN DOORS:

- a. **Hollow metal doors:** 1 3/4" hollow metal doors. Self-closing. Provide heavy duty spring chain for 90° opening. Provide panic hardware, paint to match building with semi-gloss enamel. Provide steel kick plate.
- b. **Entry doors:** to be aluminum frame tempered glass with chrome push/pull bars (self-closing) designed for CBC 2016 code minimum wind loads. (Less active door to be anchored to floor and head.) Provide panic hardware.
- c. **Emergency Exit Doors:** will meet FTZ requirements (no exterior handles)

17. DOCK EQUIPMENT:

- a. Provide two dock bumpers at all dock doors, minimum 4½" projection
- b. Provide underground conduit to all dock doors for future and current equipment

18. PAINTING:

- a. **Exterior:** (2) coats acrylic flat, roll on primer; spray on finish coat. Prime all curbs to receive paint.
- b. **Interior Warehouse:**
- c. Walls: White (2) coat flat to cover.
- d. **Roof Structure Underside:** Touch up dark gray primer at steel, typ.
- e. **Interior Structural Columns:** Factory prime to match roof truss color, lower 10' to be painted safety yellow. Touch up dark gray primer above 10' typ.
- f. **Paint Touch-Up:** Provide paint touch-up at all field welded connections.
- g. **Door numbers:** Paint door numbers on exterior above each dock door 12" high and on interior side of door 12" high. Exact location to be reviewed by Landlord & architect.
- h. **Bollards:** all bollards to be painted OSHA safety yellow, except bollards at fire equipment to be red
- i. Fire Lane will be painted in shipping yards
- j. Parking Stalls, curbs to be painted to city requirements and approved plans
- k. All interior paint to meet CalGreen and LEED standards for VOC content

19. MECHANICAL:

- a. **Warehouse:** Provide roof mounted exhaust fans to provide a minimum 1 air change per hour. Make up air to be provided with wall louvered vents with changeable filters, and burglar bars (Amount to be determined by mechanical)

design-build contractor and coordinated with the Architect and structural engineer).

- b. **Electrical room:** Provide exhaust fan, makeup air to come from warehouse through louvers in door.
- c. **Mechanical Engineering:** to be design build

20. PLUMBING:

- a. 1,500 LF of sewer under the slab is provided. The tenant will provide Landlord with the location for the installation of the sewer piping no later than 90 days prior to the issuance of building permits. Any additional piping would be at tenant's expense.
- b. 300 LF of water line overhead provided. The tenant will provide Landlord with the location for the installation of the water lines no later than 90 days prior to the issuance of building permits. Any additional piping would be at tenant's expense.
- c. Provide **exterior** roof drains with overflow scuppers typical at exterior dock walls. Exterior downspouts to be 12" x 12" typ. painted. Provide cast iron interior roof drains with interior overflow drains at office areas and walls facing public streets. (Refer to Roof Plans for locations and sizes.)
- d. Provide required monitoring manhole(s) if required by the City requirements.
- e. Provide domestic water service(s) to the building.
- f. Provide required landscape irrigation water meter(s) as required.
- g. Provide hose bibs at main entries, trash enclosures, trash compactors, and at roof
- h. Plumbing engineering to be design build

21. ELECTRICAL:

- a. The electrical service is to be as follows:
 - i. Two (2) 4,000-amp UGPS / one (1) 1,200-amp UGPS / two (2) 4,000- amp metering section & distribution boards / one (1) 1,200 amp switchgear / 200-amp house panel
 - ii. Additional 4,000 AMP services will be and paid for by Tenant as outlined in section 26.
 - iii. Run empty conduit for future power to every dock door (not within the wall). Panels not included.
- b. Exterior parking lot lighting to be LED wall mounted and steel pole mounted fixtures (photo cell on and photo cell off). Lighting to be two foot-candles minimum in all parking lot areas. **Lighting at all man doors to be per code.**

- c. Provide exterior soffit lights at exterior building entry soffits.
- d. Provide electrical hook up(s) for landscape irrigation controller.
- e. Emergency lighting and required exit lighting to meet CBC, N.F.P.A. and CFC editions currently enforced by the governing agencies.
- f. Stub in phone service and provide required telephone backboard(s). Provide (2) 4" conduits.
- g. Provide for electric/telephone room accessible by Power Company from exterior of building. Room size to be determined by Electrical Design-Build Contractor.
- h. Electrical conduit to all fire PIV's and detector checks for fire monitoring.
- i. Electrical gear by 'Square D', or approved equal by the Owner, in writing.
- j. Any conduit to be installed by tenant after the slab has been installed is subject to the alterations and improvements provisions in the lease.
- k. Electrical engineering to be design build

22. FIRE SPRINKLER SYSTEM:

- a. All fire systems must be 100% complete with all required fire hydrants, piv's, bells, fire loops approved by Fire Department, and the most current Edition of the CFC.
- b. Full Sprinkler System to be ESFR using FM approved K-25 heads and pump if required
- c. Max ridge not to exceed 50'.
- d. Provide fire extinguisher(s) per Fire Department Requirements and MHE Design.
- e. All ceiling hung sprinkler pipe will be recessed within the trusses.
- f. Fire protection is design-build.
- g. All gaps in slab at fire risers to be filled with clean gravel, typ.

23. FIRE ALARM:

- a. Designed to comply with all codes by design build contractor.
- b. Design to be design build by general contractor
- c. Permitting and plans submittal to be by design-build contractor

24. PIPE BOLLARD PROTECTION

- a. Provide 6" diameter schedule 80 pipe bollards 2500 psi concrete filled at the minimum following locations. All bollards within truck court to be 10" diameter filled with concrete:

- i. At fire riser locations, exposed PIV's
- ii. Fire hydrants
- iii. Power transformers per utility comparing requirements
- iv. At exterior stairs
- v. At gates (4 per gate minimum)
- vi. At each light pole in the shipping yard
- vii. At dock and ramp doors
- viii. Elsewhere as noted on plan

25. LANDSCAPE AND IRRIGATION:

- a. Landscape and Irrigation to meet the governing jurisdiction standards.
- b. All irrigation systems to be automatic and meet City requirements.
- c. Provide separate water meter(s) for landscape irrigation.
- d. Provide drip irrigation where glazing is adjacent to the grade.
- e. Irrigation heads to be (1) foot behind curbs at parking stalls.
- f. Landscape Architect to determine if recycled water is available for the project.

26. TENANT IMPROVEMENTS:

The Tenant has requested that Landlord deliver the following items ("Tenant Improvements"), which were not included in the "Landlord Improvements" listed in the building design criteria set forth in Paragraphs 1-25 above.

- Three (3) additional 4,000 AMP Services
- Stairs to Roof Access
- Float and Grind VNA for a F-min of 70/80 (Long/ Trans)
- Electrical distribution on each column
- Guardhouse with Restrooms (2)
- Driver Check-In Entrance (8x10 area with a restroom, power for vending machines, notification bell)

- Dock Door Equipment (mechanical levelers, dock seals, dock light, dock lock, dock fan and convenience electrical outlet) (includes conduit within wall)
- Facility Area - Battery Charging Areas (3) (12 and 20 amp disconnects, safety eyewash, quad receptacles, each charging area will have panel scheduling of 1400 AMPS)
- Electrical Connections for Compactors (750 AMP power and disconnects for 5 compactors)
- Electric Drop and Data Runs for Supervisor Work Stations
- Facility Areas / Office Area (7,500 SF Total)
- Open Offices (2,500 SF)
- Breakroom (600 SF)
- Supply Closet & Storage Closet (160 SF)
- Other Office Area with Restrooms (approx. 4,240 SF)
- Lighting System (LED lighting)
- Signage
- Outside Smoking Area (400 SF)
- Conveyor Bridge & Conveyor Openings + Reinforcement of Bldg A wall
- Roof reinforcement for ceiling hanging of conveyor
- Equipment canopies (if any) & supporting wall openings
- 4" empty conduit for fiber run from current data center to MDF in new building—no 90° bends
- UPS & back-up generators
- Mezzanine footings

Landlord has budgeted \$1,260,000 (which includes a contingency of \$210,000) in the Development Budget (a copy of which is attached as an exhibit to the Development Management Agreement, a copy of which is an exhibit to the Amended and Restated Limited Liability Company Agreement of Landlord), for roof-mounted solar panels which will generate 350 kW. Landlord will have a discussion with Tenant before the roof-mounted solar panels are installed, and if Tenant requests, some or all of the solar panels will be installed on carports, provided that the solar panels generate 350 kW in the aggregate. Any costs in excess of those in the Development Budget for the construction of carport-mounted solar panels (including the cost of the construction of the carports and any additional solar panels required to generate 350 kW) shall be paid for in accordance with Paragraph 6(b) of Addendum 2 to the Lease (as described below).

Landlord will install the Tenant Improvements as indicated above, which shall be paid for in accordance with Paragraph 6(b) of Addendum 2 to the Lease, which provides as follows:

“Landlord shall pay for the Tenant Improvements by providing an allowance (the “Allowance”) up to a maximum amount of \$3,880,000 (\$5.07 psf, exclusive of the area to be subleased to Highland Fairview (or one of its Affiliates)), and Tenant shall pay for the cost of the Tenant Improvements in excess of such amount. Provided, however, that the obligation of Landlord to pay for any Tenant Improvements in excess of \$2,880,000 are contingent upon there being any funds left after the construction of the Building has been completed in the “contingency” line item of the Development Budget, as defined in the Development Management Agreement between Landlord and HFC Holdings, LLC (not to exceed \$1,000,000) (such amount, the “Contingent Allowance”). If after the Drawings (as defined below) have been mutually agreed upon and Tenant has approved the bids for the Tenant

Improvements, the cost of the Tenant Improvements is estimated to exceed \$2,880,000, prior to Landlord's commencement of construction of the Tenant Improvements, Tenant shall deposit the difference (between the total estimated cost of the Tenant Improvements and \$2,880,000) into an escrow account with First American Title Insurance Company or another mutually agreeable escrow company ("Escrow Holder"). The parties shall execute joint escrow instructions to the Escrow Holder which shall also be acceptable to Escrow Holder (including any "general escrow instructions" reasonably required by Escrow Holder), and which shall provide that the funds shall be distributed from escrow only upon joint written instructions from Landlord and Tenant. The cost of the escrow shall be paid one-half by Landlord and one-half by Tenant.

The first \$2,880,000 of the Allowance shall be applied against the actual cost of the Tenant Improvements, as such costs are incurred by Landlord. After such amount has been fully applied, Landlord shall give notice to Tenant, and any additional costs of the Tenant Improvements shall be paid from escrow. No more frequently than monthly, Landlord shall submit to Tenant a demand for a disbursement from escrow, together with copies of invoices or other documentation which shows the costs of the Tenant Improvements covered by such demand. Unless Tenant disputes that such costs are due and payable, within ten (10) days after receipt of such demand from Landlord, Tenant shall give Escrow Holder written instructions to disburse the amount requested (which instructions shall be joined by Landlord). If Tenant disputes the amount due, it shall direct the disbursement of any amounts not in dispute, and shall specify the basis for any disputed amounts. If Landlord agrees with the dispute, Landlord will seek to resolve the dispute with the general contractor or any applicable subcontractors. If Landlord does not agree with the dispute, Landlord shall authorize Tenant to deal directly with the general contractor or any applicable subcontractors to seek to resolve the dispute. Any costs or expenses incurred by Landlord which result from a dispute which is not resolved in favor of the Tenant shall be paid or reimbursed by Tenant to Landlord on demand. If the Property is encumbered by any mechanics lien as a result of a dispute by Tenant which is not agreed to by Landlord, Tenant shall, at its expense, promptly pay-off or bond around such lien.

After final completion of the Landlord Improvements or the Tenant Improvements, the Tenant Improvements shall be reconciled with the total amount applied from the Allowance and the total amount disbursed to Landlord from escrow. If the total cost of the Tenant Improvements exceeded \$2,880,000, and if any portion of the Contingent Allowance is available, then such amount, not to exceed \$1,000,000, shall be promptly paid by Landlord to Tenant.

If after approval of the Drawings (as defined below), Tenant shall desire any changes to the Tenant Improvements it shall follow the procedure for Change Orders described in Paragraph 1(b) above. Any and all costs of reviewing any Change Order Request relative to the Tenant Improvements, and any and all costs of making any changes to the Tenant Improvements which Tenant may request and which Landlord shall approve shall be at Tenant's sole cost and expense, and shall be paid to Landlord upon demand and before commencement of the work covered by the Change Order.

Landlord shall proceed with and complete the construction of the Tenant Improvements in a good and workmanlike manner in accordance with all legal requirements and any Drawings prepared and approved by the parties as described below. The construction of the Tenant Improvements shall, to the extent possible, be coordinated with the construction of the Landlord Improvements. The Landlord Improvements shall not be deemed to have achieved Substantial Completion until the Tenant Improvements shall also have been Substantially Completed (also to be based upon the opinion of the Architect of Record).

The Landlord and Tenant shall work together to prepare designs and construction drawings (collectively, the "Drawings") for the Tenant Improvements and any such Drawings must be mutually

approved by Landlord and Tenant before work is commenced. The cost of such designs and drawings shall be part of the allowance described above. After the Drawings are mutually approved, the Tenant Improvements will be put out to bid, and the amount of the bids will be presented to Tenant for approval. Landlord will competitively bid all Tenant Improvements and will disclose such bids to Tenant on an "open book" basis. The Tenant Improvements will not be constructed until Tenant has approved the bids."

FORM OF HIGHLAND FAIRVIEW SUBLEASE

THIS SUBLEASE AGREEMENT (the "**Sublease**") is made as of _____, 2019 ("**Effective Date**") by and between SKECHERS, U.S.A., INC., a Delaware corporation ("**Sublandlord**"), and HIGHLAND FAIRVIEW PROPERTIES, a Delaware general partnership ("**Subtenant**").

RECITALS

WHEREAS, HF Logistics-SKX T2, LLC, a Delaware limited liability company, as landlord ("**Landlord**"), and Sublandlord, as tenant, entered into that certain Lease of even date herewith (as the same may be amended from time to time, the "**Master Lease**") for the premises (the "**Premises**"), which will consist of approximately 750,000 net rentable square feet in a building (the "**Building**") to be constructed on approximately 35.30 acres of land in Moreno Valley, California, as more particularly described in the Master Lease, which Premises is part of a project known as Highland Fairview Corporate Park (the "**Project**").

WHEREAS, Sublandlord desires to sublease a portion of the Premises to Subtenant, consisting of approximately 30,000 net rentable square feet in the approximate location shown on Exhibit "B" attached hereto (the "**Subleased Premises**");

WHEREAS, Landlord has previously approved the subletting of the Subleased Premises by Sublandlord to Subtenant; and

WHEREAS, Sublandlord and Subtenant desire to set forth herein the terms and conditions applicable to the subleasing of the Subleased Premises.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Sublandlord and Subtenant agree as follows:

AGREEMENT

1. Term.

(a) Initial Term. Sublandlord does hereby lease and demise to Subtenant, and Subtenant does hereby lease and accept from Sublandlord, the Subleased Premises for a term (the "**Sublease Term**") commencing on the "Commencement Date" of the Master Lease (the "**Sublease Commencement Date**") and terminating at the end of the 60th full month thereafter (the "**Sublease Termination Date**"), subject to extension or earlier termination pursuant to the terms of the Master Lease or this Sublease.

(b) Option to Extend. Subtenant may extend the Sublease Term for one (1) period of sixty (60) months, on the same terms and conditions (including the Base Rent calculation), provided that Subtenant gives notice of its exercise of its option to extend to Sublandlord not later than three (3) months prior to the Sublease Termination Date.

2. Rent.

(a) Base Rent. Commencing on the Sublease Commencement Date, Subtenant shall pay to Sublandlord base rent (the "**Base Rent**") for the Subleased Premises in the same amount on a per square foot basis as is payable by Sublandlord to Landlord under the Master Lease. Base Rent shall be payable in advance, without demand and without abatement, reduction, set-off or deduction, on the first day of each calendar month during the Sublease Term with appropriate prorations for partial months.

All rent shall be paid by Subtenant to Sublandlord at the address set forth in Paragraph 16 below, or any other address designated by Sublandlord in a notice to Tenant:

(b) Additional Rent.

(i) Subtenant shall pay to Sublandlord, as Additional Rent, an amount equal to Subtenant's "pro rata share" of Operating Expenses, Taxes and Insurance (as such terms are defined in the Master Lease), which are sometimes herein collectively referred to as "Other Charges," for each Lease Year during the Sublease Term. Subtenant's "pro rata share" share shall be a fraction, the numerator of which is the number of rentable square feet in the Subleased Premises and the denominator of which is the number of rentable square feet in the Building (which is agreed initially to be 750,000 square feet, subject to adjustment as set forth in the Master Lease, and accordingly, it is agreed that Subtenant's pro rata share is initially (4%).

(ii) Within a reasonable time following receipt from Landlord of invoices or other notices with respect to the Other Charges, Sublandlord shall invoice Subtenant for the Additional Rent due from Subtenant as described in clause (i) above, which invoices shall be based upon Landlord's calculation (or estimate, if Landlord is permitted to estimate such charges under the Master Lease) of the Other Charges, and Subtenant shall pay the Additional Rent to Sublandlord within ten (10) business days after Subtenant's receipt of such invoice. If and when any of the Other Charges which have been estimated are reconciled under the Master Lease, they shall likewise be reconciled under this Sublease.

(iii) Any costs or expenses for services or utilities in excess of those required by the Master Lease to be supplied to a Sublandlord by Landlord, which are not otherwise included in Operating Expenses, and which are attributable directly to Subtenant's use or occupancy of the Subleased Premises, shall be paid by Subtenant as Additional Rent on the next date for payment of Base Rent after the date Sublandlord invoices Subtenant therefor (which invoices shall be based on invoices for such costs or expenses received from Landlord).

(c) Rent. All Base Rent, Additional Rent and other monetary sums payable by Subtenant under this Sublease are considered to be "rent."

3. Landlord Obligations. With respect to provisions regarding any work, services or other obligations required to be performed by Landlord under the Master Lease, Sublandlord's sole obligation to Subtenant with respect thereto shall be to request performance of the same from Landlord, upon request in writing by Subtenant, and to use reasonable efforts to obtain the performance of such work, services or other obligations by Landlord; provided, however, the foregoing shall not require Sublandlord to institute any legal action to obtain such performance. If Sublandlord fails or refuses to do so after request from Subtenant, Subtenant shall have the right to request the performance of any such work, services or other obligations directly from Landlord, and to institute legal proceedings against Landlord (which may be brought in Sublandlord's name if required by law) as may be required to obtain from Landlord any such work, services or other obligations. Sublandlord agrees to cooperate with Subtenant in connection therewith, at Subtenant's expense, and to execute such documents as may be reasonably required in connection therewith.

4. Landlord Consents. In all cases where the consent or approval of Landlord is required under the Master Lease to take any actions, the consent or approval of Sublandlord shall also be required under this Sublease, and Subtenant shall therefore be required to obtain the consent of both Sublandlord and Landlord before taking such actions. Sublandlord shall use reasonable efforts to obtain any such consents or approvals of Landlord, upon request in writing by Subtenant, but Sublandlord shall not be required to institute any legal action to obtain any such consent or approval. If Sublandlord fails or refuses to do so after request from Subtenant, Subtenant shall have the right to request such consents or

approvals directly from Landlord, and to institute legal proceedings against Landlord (which may be brought in Sublandlord's name if required by law) as may be required to obtain from Landlord any such consents or approvals. Sublandlord agrees to cooperate with Subtenant in connection therewith, at Subtenant's expense, and to execute such documents as may be reasonably required in connection therewith.

5. Relationship to Master Lease.

(a) This Sublease and all of Subtenant's rights hereunder are expressly subject and subordinate to all of the terms of the Master Lease, provided that the sum of \$50 million in the second paragraph of Paragraph 17 shall instead be \$5 million. Subtenant shall comply with all obligations of and restrictions imposed on Sublandlord under the Master Lease with respect to the Subleased Premises, except to the extent any such obligations are not applicable to this Sublease or are limited by the terms of this Sublease (e.g., without limitation, Subtenant only pays those amounts of Base Rent and Additional Rent described herein). Subtenant hereby acknowledges that Subtenant shall look solely to Landlord for the performance of all the Landlord's obligations under the Master Lease and, except as expressly set forth herein, Sublandlord shall not be obligated to provide any services to Subtenant in connection with this Sublease. Subtenant acknowledges that any termination of the Master Lease will result in a termination of the Sublease, provided, however, that Sublandlord shall not voluntarily terminate the Master Lease prior to the end of the Term of the Master Lease without the consent of Subtenant.

(b) Except as otherwise expressly provided herein, (i) Sublandlord shall be deemed to have the same rights, in its capacity as "sublandlord" hereunder, as Landlord has in its capacity as "landlord" under the Master Lease; and (ii) Subtenant shall be deemed to have the same rights, in its capacity as "subtenant" hereunder, as Sublandlord has in its capacity as "tenant" under the Master Lease, all to the extent and only to the extent such rights pertain to the use and occupancy of the Subleased Premises (and the parking areas) during the Sublease Term. To the extent the provisions of this Sublease contradict the terms of the Master Lease insofar as they impact Sublandlord's obligations under the Master Lease (such that Sublandlord would be in default under the Master Lease), the terms of the Master Lease shall govern.

(c) Nothing contained in this Sublease shall serve to release Sublandlord from the further performance of any of its obligations under the Master Lease or to relieve Sublandlord from any of its liability under the Master Lease.

6. Use. The Subleased Premises shall be used by Subtenant only for general office uses, and services and storage incidental to such uses, and any other uses permitted under the Master Lease.

7. Default. Any act or omission by Subtenant that would constitute a default under the Master Lease shall, subject to the same notice and cure provisions provided in the Master Lease, be deemed a default by Subtenant under this Sublease. For purposes of clarification, any failure by Subtenant to pay rent when due hereunder or any failure by Subtenant to perform any other obligations required under this Sublease shall be deemed a default hereunder if any of the same is not cured within the applicable cure period after notice thereof. Any such default by Subtenant shall entitle Sublandlord to exercise any and all remedies available to Landlord under the Master Lease or any other remedies available at law or in equity under the laws of the State of California.

8. Intentionally Omitted.

9. Quiet Enjoyment. Provided Subtenant is not in default beyond applicable notice and cure periods hereunder, Subtenant shall have the quiet enjoyment of the Subleased Premises during the Sublease Term without interference by Sublandlord or anyone claiming by, through or under Sublandlord.

10. Subordination. Notwithstanding the provisions of Section 9 above, Subtenant accepts this Sublease subject and subordinate to any mortgage, deed of trust or ground lease now or hereafter placed on the Premises or the Building, or any portion thereof, and to replacements, renewals and extensions thereof. This clause shall be self-operative, but upon the request of any mortgagee of Sublandlord or Landlord, Subtenant shall execute a commercially reasonable subordination agreement in favor of such mortgagee or ground lessor.

11. Insurance and Indemnities. Subtenant hereby agrees to indemnify and hold Landlord and Sublandlord harmless with regard to Subtenant's leasing and use of the Subleased Premises, to the same extent that Sublandlord is required to indemnify and hold Landlord harmless with respect to the Premises under the Master Lease. Likewise, Subtenant hereby agrees to obtain and provide evidence satisfactory to Sublandlord and Landlord, on or before the Effective Date, that Subtenant is carrying insurance in the same amounts and of the same types required to be carried by Sublandlord under the Master Lease with regard to the Premises. Neither Sublandlord nor Subtenant shall be liable to the other party (by way of subrogation or otherwise) or to any insurance company insuring the other party for any loss or damage to any building, structure or other tangible property, or any resulting loss of income, or losses under workmans' compensation laws and benefits, even though such loss or damage might have been occasioned by the negligence of such party, its agents or employees if, and to the extent, that any such loss or damage is covered by insurance benefiting the party suffering such loss or damage or was required to be covered by insurance pursuant to this Sublease.

12. Intentionally Omitted.

13. Parking. During the Sublease Term, Subtenant shall be provided with a sufficient number of parking spaces in the parking area of the Premises as shall be required by the City, which parking spaces shall be in close proximity to the Subleased Premises. Subtenant hereby agrees to comply with all of the terms and conditions of the Master Lease relating to parking.

14. No Brokers. Sublandlord and Subtenant each hereby represent and warrant to the other, and shall indemnify and defend the other for any breach of the foregoing representation or warranty hereof by a party, that no brokers' or finders' fees or commissions will be owed arising out of the entering into this Sublease as a result of the warranting party's actions or inactions.

15. Sublandlord's Representations and Certain Covenants.

(a) Sublandlord hereby represents that (i) a true and correct copy of the Master Lease (including, without limitation, all amendments and/or supplements thereto) is attached hereto as Exhibit "A", and the Master Lease is in full force and effect; (ii) Sublandlord has not received or given any notice of default from or to Landlord relating to the Master Lease, and Sublandlord is not aware of any occurrence or circumstance which, with notice or the passage of time, would be deemed a default by either Sublandlord or Landlord under the Master Lease; and (iii) Sublandlord has no knowledge, nor has Sublandlord received written notice from any governmental authority or any other person, of any existing or threatened material violation of any laws applicable to the use or condition of the Premises or any part thereof.

(b) During the Sublease Term, Sublandlord will (i) pay, when and as due, all rent and other charges payable by Sublandlord under the Master Lease, (ii) not exercise any voluntary right to terminate the Master Lease prior to the end of the term of the Master Lease without the prior written consent of Subtenant, and (iii) not amend or modify the Master Lease in any respect which creates additional obligations of Subtenant under this Sublease, or decreases Subtenant's rights under this Sublease, without the prior written consent of Subtenant.

(c) Sublandlord shall indemnify, defend and hold Subtenant harmless from any and all damages suffered by Subtenant as a result of any breach of the foregoing representations, warranties or covenants, which indemnification obligation shall survive any termination of this Sublease.

(d) Sublandlord will perform all of its covenants and obligations under the Master Lease, and will not default thereunder. If Sublandlord receives any notice of default or potential default from Landlord under the Master Lease, Sublandlord will promptly send a copy of such notice to Subtenant, and unless such default results from any act or omission which is a default by Subtenant under this Sublease, Sublandlord will cure such default within any applicable cure period set forth in the Master Lease.

16. Notices: Any notice, demand or other communication required or permitted to be given or served by either party to this Sublease shall be in writing, and shall be deemed given when either (i) personally delivered, or (ii) deposited with the United States Postal Service, postage prepaid, by registered or certified mail, return receipt requested, or (iii) delivered by a nationally recognized overnight delivery service providing proof of delivery, properly addressed to the other party at the address set forth below (as the same may be changed by giving written notice of the aforesaid in accordance with this Section 16).

Sublandlord's Address:

228 Manhattan Beach Boulevard
Manhattan Beach, CA 90266
Attn: David Weinberg, COO

With a copy to:

Philip Paccione, Esq.
Skechers U.S.A., Inc.
228 Manhattan Beach Boulevard
Manhattan Beach, CA 90266

Subtenant's Address:

Highland Fairview Properties
14225 Corporate Way
Moreno Valley, CA 92553
Attn: Iddo Benzeevi

With a copy to:

James Lieb, Esq.
Executive Vice President
The Trump Group
400 Park Avenue
New York, NY 10022

17. Counterparts. This Sublease may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same document.

18. Capitalized Terms. Any capitalized term used in this Sublease which is not defined herein shall have the same meaning attributable to that term in the Master Lease.

19. Miscellaneous. This Sublease shall be governed by the laws of the State of California. This Sublease supersedes all prior discussions and agreements between the parties and incorporates their entire Agreement with respect to the matters set forth herein. This Sublease may not be amended or modified except by a writing executed by both parties.

20. Condition of Subleased Premises. The Subleased Premises shall be delivered to Subtenant on the Sublease Commencement Date in its "as is" condition. By accepting possession of the Subleased Premises, Subtenant shall be deemed to have accepted the physical condition thereof, except to the extent that Landlord has made any warranties or representations to Sublandlord as to the condition of the Premises, which may be enforced in the same manner as set forth herein for the enforcement of other obligations of Landlord. Sublandlord has no obligation to improve or construct any improvements to the Subleased Premises. It is understood that any necessary demising wall which shall separate the Subleased Premises from the rest of the Premises shall be constructed by Landlord pursuant to its construction obligations under the Master Lease, and any additional cost thereof imposed by Landlord on Sublandlord shall be paid by Subtenant.

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IN WITNESS WHEREOF, the parties hereto have executed this Sublease as of the day and year first above written.

SUBLANDLORD:

SKECHERS, U.S.A., INC., a Delaware corporation

By: _____
Name: _____
Title: _____

SUBTENANT:

HIGHLAND FAIRVIEW PROPERTIES, a Delaware general partnership

By: _____
Name: Iddo Benzeevi
Title: President and Chief Executive Officer

Exhibit "A"
Master Lease

Exhibit "C"-8

Subleased Premises

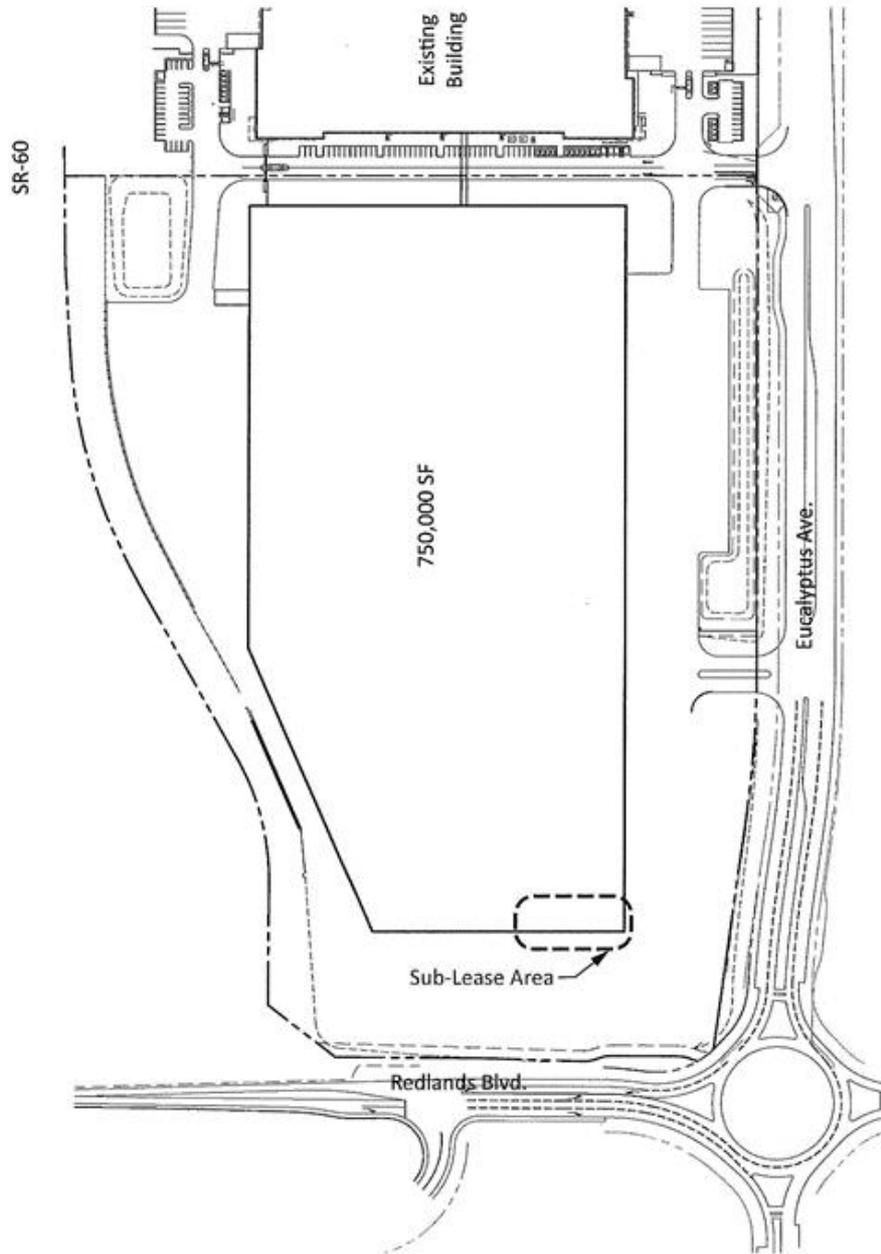


EXHIBIT "C"

FOURTH AMENDMENT TO LEASE AGREEMENT

THIS FOURTH AMENDMENT TO LEASE AGREEMENT (the "**Fourth Amendment**") is made and entered into this ____ day of _____, 2019 by and between **HF LOGISTICS-SKX T1, LLC, a Delaware limited liability company** ("**Landlord**") and **SKECHERS U.S.A., INC., a Delaware corporation** ("**Tenant**").

RECITALS

A. HF LOGISTICS I, LLC, a Delaware limited liability company and Tenant entered into that certain Lease Agreement dated September 25, 2007 (the "**Original Lease**"), as amended by that certain Amendment to Lease Agreement dated December 18, 2009 (the "**First Amendment**"), and as further amended by that certain Second Amendment to Lease Agreement dated April 12, 2010 (the "**Second Amendment**"), and as further amended by that certain Third Amendment to Lease Agreement dated August 18, 2010 (the "**Third Amendment**"). HF Logistics I, LLC assigned all of its right, title and interest as landlord under the Lease to Landlord, and Landlord assumed the obligations of HF Logistics I, LLC as landlord under the Lease. The Original Lease, as amended by the First Amendment, the Second Amendment and the Third Amendment, is referred to herein as the "**Lease**". Pursuant to the Lease, Tenant has leased from Landlord certain premises situated at the northwest corner of Theodore Street and Eucalyptus Avenue in Moreno Valley, California, as more fully described therein.

B. The parties desire to further amend the Lease to extend the term, so that the Termination Date will be the same date as the termination date of that certain Lease dated of even date herewith between HF Logistics-SKX T2, LLC, a Delaware limited liability company, as landlord, and Tenant, as tenant, for approximately 35.30 acres of land situated adjacent to the Premises, upon which will be constructed an approximately 750,000 square foot building (the "**Expansion Parcel Lease**").

NOW, THEREFORE, for a good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. The Termination Date shall be the "Termination Date" as set forth in the Expansion Parcel Lease.
2. The Base Rent payable under the Lease from the original Termination Date (November 15, 2031) until the new Termination Date (as established under this Fourth Amendment) shall be at the same rates per square foot that are then payable under the Expansion Parcel Lease.
3. The parties agree that the provisions in the Lease relating to the Expansion Site (Addendum 4, Paragraph 3) are of no further force or effect. Upon request of Landlord, Tenant will execute and deliver any instrument reasonably required to remove from the public records any memorandum of option which may have been recorded with respect to the Expansion Site.

4. Paragraph 23 of the Lease is hereby amended by adding the following clause (viii):

“viii. Tenant shall default (beyond any applicable notice and/or cure period) under that certain lease of even date herewith between HF Logistics-SKX T2 LLC, as landlord, and Tenant, as tenant, for approximately 35.30 acres of land adjacent to the Premises.”

5. Capitalized terms used in this Fourth Amendment shall have the same meanings as set forth in the Lease, unless a different definition is set forth herein.

6. Except as amended by this Fourth Amendment, all terms and conditions of the Lease shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Fourth Amendment as of the date first above written.

“LANDLORD”

“TENANT”

HF LOGISTICS I, LLC, a Delaware limited liability company

SKECHERS U.S.A., INC., a Delaware corporation

By _____
Iddo Benzeevi, President and Chief Executive Officer

By _____
David Weinberg, Chief Operating Officer

EXHIBIT "D"

AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT OF
HF LOGISTICS-SKX T2, LLC

THE LIMITED LIABILITY COMPANY INTERESTS IN HF LOGISTICS-SKX T2, LLC (THE "**INTERESTS**") ARE SUBJECT TO THE RESTRICTIONS ON TRANSFER AND OTHER TERMS AND CONDITIONS SET FORTH IN ARTICLE 11 AND MAY NOT BE OFFERED FOR SALE, PLEDGED, HYPOTHECATED, SOLD, ASSIGNED OR TRANSFERRED AT ANY TIME EXCEPT IN COMPLIANCE WITH THE TERMS AND CONDITIONS THEREOF. THEREFORE, PURCHASERS OF THE INTERESTS WILL BE REQUIRED TO BEAR THE RISK OF THEIR INVESTMENTS FOR AN INDEFINITE PERIOD OF TIME. THE INTERESTS HAVE NOT BEEN REGISTERED (i) UNDER ANY SECURITIES LAWS OF THE SEVERAL STATES (THE "**STATE ACTS**"), OR (ii) UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**FEDERAL ACT**"), IN RELIANCE UPON EXEMPTIONS PROVIDED THEREIN, AND NEITHER THE INTERESTS NOR ANY PART THEREOF MAY BE OFFERED FOR SALE, PLEDGED, HYPOTHECATED, SOLD, ASSIGNED, OR TRANSFERRED AT ANY TIME EXCEPT IN COMPLIANCE WITH THE TERMS AND CONDITIONS OF ARTICLE 11 AND (1) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER ANY APPLICABLE STATE ACTS OR IN A TRANSACTION WHICH IS EXEMPT FROM REGISTRATION UNDER SUCH STATE ACTS OR WHICH IS OTHERWISE IN COMPLIANCE WITH SUCH STATE ACTS, AND (2) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE FEDERAL ACT OR IN A TRANSACTION WHICH IS EXEMPT FROM REGISTRATION UNDER THE FEDERAL ACT OR WHICH IS OTHERWISE IN COMPLIANCE WITH THE FEDERAL ACT. IN ADDITION, ANY INTERESTS ACQUIRED BY NON-U.S. PERSONS MAY NOT, DIRECTLY OR INDIRECTLY, BE OFFERED FOR SALE, PLEDGED, HYPOTHECATED, SOLD, ASSIGNED, OR TRANSFERRED IN THE UNITED STATES OR TO OR FOR THE ACCOUNT OF A U.S. PERSON EXCEPT IN COMPLIANCE WITH THIS AGREEMENT AND THE FEDERAL ACT AND ALL APPLICABLE STATE ACTS. AS USED HEREIN, "**UNITED STATES**" MEANS THE UNITED STATES OF AMERICA, ITS TERRITORIES AND POSSESSIONS, AND ALL AREAS SUBJECT TO ITS JURISDICTION, AND A "**U.S. PERSON**" MEANS A CITIZEN OR RESIDENT OF THE UNITED STATES (INCLUDING THE ESTATE OF ANY SUCH PERSON), A CORPORATION, COMPANY, OR OTHER PERSON CREATED OR ORGANIZED UNDER THE LAWS OF THE UNITED STATES OR ANY POLITICAL SUBDIVISION THEREOF OR THEREIN, AND AN ESTATE OR TRUST THE INCOME OF WHICH IS SUBJECT TO UNITED STATES FEDERAL INCOME TAXATION REGARDLESS OF ITS SOURCE.

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**AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF
HF LOGISTICS-SKX T2 LLC**

THIS AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT OF **HF LOGISTICS-SKX T2, LLC** (the “**Company**”), is entered into and effective as of the ____ day of _____, 2019 (the “**Effective Date**”) by and between **HF LOGISTICS I, LLC, a Delaware limited liability company (“HF”), SKECHERS R.B., LLC, a Delaware limited liability company (“Skechers,” or the “Skechers Member”),** and Highland Fairview Partners V, a Delaware general partnership (“**HFPV**”, and together with HF, the “**HF Member**,” and the HF Member together with Skechers, the “**Members**”).

RECITALS

WHEREAS, on or about April 12, 2010, HF Logistics-SKX, LLC, a Delaware limited liability company (“**SKX LLC**”), as the sole member of the Company, entered into that certain Limited Liability Company Agreement of HF Logistics-SKX T2, LLC (the “**Original Agreement**”) which set forth the terms and conditions under which the Company would be organized, managed and operated; and

WHEREAS, concurrently herewith, SKX LLC has assigned 50% of its Company Interest to HF and 50% of its Company Interest to Skechers; and

WHEREAS, concurrently herewith, with the consent of HF and Skechers, HFPV has been admitted as a Member of the Company; and

WHEREAS, the Members desire to amend and restate the Original Agreement so as to reflect the terms and conditions upon which the Company will hereafter be organized, managed and operated.

NOW, THEREFORE, in consideration of the premises, the mutual promises and agreements herein made, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Members, intending to be legally bound, have agreed and do hereby agree as follows:

This Agreement amends and supersedes the Original Agreement.

**ARTICLE 1
DEFINED TERMS**

Section 1.1 Certain Defined Terms. Unless otherwise clearly indicated to the contrary, the following terms shall have the following meanings:

1.1.1 1.1.1 “Act” means Sections 18-101 *et seq.* of the Delaware Corporation Laws Ann., commonly known as the Delaware Limited Liability Company Act, as it may be amended from time to time, and any successor to such statute.

1.1.2 1.1.2 “Additional Capital Contributions” means the total of all Capital Contributions made to the Company by the Members in accordance with Section 4.1.2.

1.1.3 1.1.3 “Additional Funding Obligation” has the meaning set forth in Section 6.9(a).

1.1.4 1.1.4 Intentionally Deleted

1.1.5 1.1.5 “Affiliate” means with respect to any Person, (a) any Person directly or indirectly controlling, controlled by or under common control with such Person, or (b) any Person owning or controlling fifty-one percent (51%) or more of the outstanding voting interests of such Person, or (c) any Person of which such Person owns or controls fifty-one percent (51%) or more of the voting interests. For the purposes of this Agreement, it is agreed that HF and HFPV are Affiliates of each other.

1.1.6 1.1.6 “Agreement” means this Amended and Restated Limited Liability Company Agreement of HF Logistics-SKX T2, LLC, as it may be amended, supplemented or restated from time to time.

1.1.7 1.1.7 “Assignee” means a Person to whom any Company Interest has been transferred in a manner permitted under this Agreement, but who has not been admitted to the Company as a Member.

1.1.8 1.1.8 “Available Cash” means, with respect to any period for which such calculation is being made:

(a) all cash revenues and funds received by the Company from whatever source, including Capital Transaction Proceeds (except with respect to Liquidating Transactions), plus the amount of any reduction in existing Reserves of the Company;

(b) less the sum of the following:

(i) all required interest or principal payments, escrow account payments and any other payments made during such period by the Company on account of the Debt of the Company, if any;

(ii) all cash expenditures (including capital expenditures) made by the Company during such period;

(iii) all payments made by the Company during such period to any Reserve account (including the amount of any increase in any existing Reserves of the Company).

1.1.9 1.1.9 “Bankruptcy Action” means (a) the filing of any voluntary or involuntary bankruptcy (and in the case of an involuntary bankruptcy, such proceeding shall not have been dismissed within ninety (90) days), insolvency or reorganization case or proceeding, instituting any proceeding under any applicable insolvency law or otherwise seeking any relief under any laws relating to the relief from debts or the protection of debtors generally by or against any Person, (b) the appointment of a receiver, liquidator, assignee, trustee, sequestrator, custodian or any similar official for any Person or a substantial portion of its properties, (c) making any assignment for the benefit of creditors by any Person, (d) any Person being adjudged a bankrupt or insolvent, or having entered against it an order of relief in any bankruptcy or insolvency proceeding, (e) any Person filing a petition or answer seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation, (f) any Person filing an answer or other pleading admitting or failing to contest the material allegations of a petition filed against it in any proceeding of the foregoing nature, (g) the filing of any proceeding with respect to any Person seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law or regulation, which has not been dismissed within one hundred twenty (120) days after the commencement thereof, or (h) the appointment of a trustee, receiver, assignee, sequestrator, custodian or liquidator with respect to any Person which has not been vacated or stayed within ninety (90) days after the appointment or such appointment is not vacated within ninety (90) days after the expiration of any such stay.

Default.	1.1.10	1.1.10	“ <u>Breaching Member</u> ” shall mean any Member who has committed an Event of
	1.1.11	1.1.11	“ <u>Business Day</u> ” means any day except a Saturday, Sunday or other day on which commercial banks in Riverside, California, are authorized or required by law to close.
	1.1.12	1.1.12	“ <u>Buy-Sell Deposit</u> ” has the meaning set forth in <u>Section 8.6</u> .
	1.1.13	1.1.13	“ <u>Buy-Sell Notice</u> ” has the meaning set forth in <u>Section 8.1</u> .
	1.1.14	1.1.14	“ <u>Capital Account</u> ” means the Capital Account maintained for a Member pursuant to <u>Exhibit “A”</u> attached hereto.
	1.1.15	1.1.15	“ <u>Capital Contribution</u> ” means, with respect to any Member, any cash, cash equivalents or the Agreed Value (as defined in <u>Exhibit “A”</u>) of property which such Member contributes or is deemed to contribute to the Company pursuant to <u>Article 4</u> . Such amounts shall be treated as contributions to the Company pursuant to Section 721(a) of the Code.
	1.1.16	1.1.16	“ <u>Capital Transaction</u> ” has the meaning as set forth in <u>Section 5.2(c)</u> .
	1.1.17	1.1.17	“ <u>Capital Transaction Proceeds</u> ” has the meaning as set forth in <u>Section 5.2(c)</u> .
	1.1.18	1.1.18	“ <u>Certificate</u> ” means the Certificate of Formation of the Company filed in the office of the Secretary of State of the State of Delaware, as amended from time to time.
	1.1.19	1.1.19	“ <u>Closing Date</u> ” means the Effective Date.
herein to a specific Section or Sections of the Code shall be deemed to include a reference to any corresponding provision of future law.	1.1.20	1.1.20	“ <u>Code</u> ” means the Internal Revenue Code of 1986, as amended. Any reference
	1.1.21	1.1.21	“ <u>Company</u> ” has the meaning set forth in the preamble.
assets of the Company.	1.1.22	1.1.22	“ <u>Company Assets</u> ” means (a) the Property and the Project, and (b) all other
	1.1.23	1.1.23	“ <u>Company Interest</u> ” means the ownership interest in the Company held by a Member, which includes any and all benefits to which the holder of such a Company Interest may be entitled as provided in this Agreement (including any voting rights and rights to receive distributions of Available Cash), together with all obligations of such Member to comply with the terms and provisions of this Agreement.
	1.1.24	1.1.24	“ <u>Company Record Date</u> ” means the record dates established by the Managing Members for the distribution of Available Cash, or if they fail to agree as to any record date, such term means the last day of the current month.
	1.1.25	1.1.25	“ <u>Company Year</u> ” means the fiscal year of the Company.
Management Agreement.	1.1.26	1.1.26	“ <u>Completion of the Project</u> ” has the meaning set forth in the Development

- 1.1.27 1.1.27 “Construction Lender” means any lender under the Construction Loan.
- 1.1.28 1.1.28 “Construction Loan” means a construction loan from a Construction Lender to be taken out to finance the development of the Property in accordance with the Lease.
- 1.1.29 “Construction Loan Documents” means any and all documents which evidence the Construction Loan, including a construction loan agreement, promissory notes, deeds of trust, assignments of leases and rents, security agreements, financing statements, pledge agreements and environmental indemnity agreements.
- 1.1.29 1.1.30 “Contribution Percentages” means the ratio at which the Members are required to make Capital Contributions, which is twenty-five percent (25%) for HF, 25% for HFPV and fifty percent (50%) for Skechers.
- 1.1.30 1.1.31 “Debt” means, as to any Person as of any date of determination, (a) all indebtedness of such Person for money borrowed or for the deferred purchase price of property or services; (b) all amounts owed by such Person to banks or other Persons in respect of reimbursement obligations under letters of credit, surety bonds and other similar instruments guaranteeing payment or other performance of obligations by such Person; (c) all indebtedness for money borrowed or for the deferred purchase price of property or services secured by any lien on any property owned by such Person, to the extent attributable to such Person’s interest in such property, even though such Person has not assumed or become liable for the payment thereof; and (d) lease obligations of such Person which, in accordance with generally accepted accounting principles, should be capitalized.
- 1.1.31 1.1.32 “Default” has the meaning set forth in Section 4.1.5(c). For clarification, the use of the word “default” (uncapitalized) in this Agreement shall mean any default other than a Default which is defined in Section 4.1.5(c).
- 1.1.32 1.1.33 “Default Amount” has the meaning set forth in Section 4.1.5(c).
- 1.1.33 1.1.34 “Default Date” has the meaning set forth in Section 4.1.5(c).
- 1.1.34 1.1.35 “Default Member” has the meaning set forth in Section 4.1.5(c).
- 1.1.35 1.1.36 “Default Notice” has the meaning set forth in Section 4.1.5(b).
- 1.1.36 1.1.37 “Deposit Date” has the meaning set forth in Section 8.6.
- 1.1.37 1.1.38 “Determination” has the meaning set forth in Section 15.2.
- 1.1.38 1.1.39 “Development Budget” has the meaning set forth in the Development Management Agreement.
- 1.1.39 1.1.40 “Development Management Agreement” means that certain Development Management Agreement of even date herewith between the Company and HFC Holdings, LLC, a Delaware limited liability company (which is an Affiliate of HF), a copy of which is attached hereto as **Exhibit “B”**.
- 1.1.40 1.1.41 “Development Manager” has the meaning set forth in the Development Management Agreement.

- 1.1.41 1.1.42 Intentionally Deleted
- 1.1.42 1.1.43 “Distribution Percentages” means the ratio at which the Members are entitled to receive distributions of Available Cash, which is twenty-five percent (25%) for HF, 25% for HFPV and fifty percent (50%) for Skechers, subject to adjustment as set forth in Section 4.1.5.
- 1.1.43 1.1.44 “Effective Date” has the meaning set forth in the preamble.
- 1.1.44 1.1.45 “Embargoed Person” has the meaning set forth in Section 2.5.10.
- 1.1.45 1.1.46 “Event of Default” shall mean a default by a Member (which includes a default by a Member in its capacity as Managing Member) in the performance of its obligations under this Agreement which is not cured within any applicable cure period set forth herein, but excluding a default under Article 4 or Article 6 with respect to required Additional Capital Contributions or required loans.
- 1.1.46 1.1.47 “Event of Dissolution” has the meaning set forth in Section 13.1.
- 1.1.47 1.1.48 “HF” has the meaning set forth in the preamble.
- 1.1.48 1.1.49 “HF Loan” has the meaning set forth in Section 6.5(a).
- 1.1.49 1.1.50 “HF Managing Member” means HF acting in its capacity as a Managing Member of the Company.
- 1.1.50 1.1.51 “HFPV Property” means approximately 12.93 acres of land situated in the City of Moreno Valley, California consisting of Parcel 3 of Parcel Map No. 35629 (APNs: 488-350-027, 032 and 036).
- 1.1.51 1.1.52 “HF-SKX Property” means approximately 22.37 acres of land situated in the City of Moreno Valley, California consisting of Parcel 2 of Parcel Map No. 35629 (APNs: 488-350-031 and 035).
- 1.1.52 1.1.53 “Incapacity” or “Incapacitated” means (a) as to any individual Member, death, total physical disability or entry by a court of competent jurisdiction adjudicating him incompetent to manage his Person or his estate; (b) as to any corporation which is a Member, the filing of a certificate of dissolution, or its equivalent, for the corporation or the revocation of its charter; (c) as to any partnership or limited liability company (or partnership) which is a Member, the dissolution and commencement of winding up of the partnership or the limited liability company (or partnership); (d) as to any estate which is a Member, the distribution by the fiduciary of the estate’s entire interest in the Company; or (e) as to any trustee of a trust which is a Member, the termination of the trust (but not the substitution of a new trustee).
- 1.1.53 1.1.54 “Indemnitee” means (a) any Person made a party to a proceeding brought by an unaffiliated third party by reason of such Person’s status as (i) a Member, or (ii) a director, officer, member, manager, partner, trustee, or shareholder of the Company, or a Member or an Affiliate of a Member, or (b) such other Persons acting in good faith on behalf of the Company as determined by the Managing Members in their reasonable judgment.
- 1.1.54 1.1.55 “Initial Capital Contributions” means the total of all Capital Contributions made to the Company by the Members in accordance with Section 4.1.1.

- 1.1.55 1.1.56 “Invoking Member” has the meaning set forth in Section 8.1.
- 1.1.56 1.1.57 “IRS” means the United States Internal Revenue Service.
- 1.1.57 1.1.58 “Lease” means that certain lease of even date herewith between the Company, as landlord, and Skechers Parent, as tenant, and any subsequent amendments.
- 1.1.58 1.1.59 “Lender” means any Construction Lender or any Permanent Lender, as the case may be, or their respective successors-in-interest.
- 1.1.59 1.1.60 “Liquidating Transaction” means any transaction or series of related transactions which results in the sale or other disposition of all or substantially all of the Company Assets.
- 1.1.60 1.1.61 “Liquidator” has the meaning set forth in Section 13.2.1.
- 1.1.61 1.1.62 “Loan” means either a Construction Loan or a Permanent Loan, as the case may be.
- 1.1.62 1.1.63 “Loss Item” has the meaning set forth in Section 7.6.1.
- 1.1.63 1.1.64 “Managing Member” means either HF or Skechers, as the case may be, acting in the capacity as a Managing Member of the Company.
- 1.1.64 1.1.65 “Managing Members” means both HF and Skechers, each acting in the capacity as a Managing Member of the Company.
- 1.1.65 1.1.66 Intentionally Omitted.
- 1.1.66 1.1.67 “Members” has the meaning set forth in the preamble.
- 1.1.67 1.1.68 “Offeree Member” has the meaning set forth in Section 8.1.
- 1.1.68 1.1.69 “Operating Budget” means a reasonably detailed budget of the estimated revenues and expenditures (including capital expenditures) of the Company, and a reasonably detailed business plan, which shall be prepared by the Skechers Managing Member and approved by the HF Managing Member in accordance with Section 7.9, as amended from time to time (with the approval of both Managing Members). The initial Operating Budget, which has been approved by the Managing Members, is attached as Exhibit “C”.
- 1.1.69 1.1.70 “Permanent Lender” means any lender under a Permanent Loan.
- 1.1.70 1.1.71 “Permanent Loan” means a loan or loans taken out by the Company to pay-off a Construction Loan (whether or not designated as a “permanent loan”, and including, without limitation, a “mini-perm loan”), or any replacements or refinancing thereof.
- 1.1.71 1.1.72 “Person” means an individual, corporation, partnership, limited liability company (or partnership), trust, unincorporated organization, association or other entity.
- 1.1.72 1.1.73 “Plans and Specifications” means the Approved Plans (as defined in the Development Management Agreement), which have been transmitted by HF to Skechers (by “You Send It”) on January 29, 2010.

- 1.1.73 1.1.74 “Prescribed Laws” has the meaning set forth in Section 2.5.10.
- 1.1.74 1.1.75 “Prime Rate” means the highest prime rate reported in the Money Rates column or section of The Wall Street Journal from time to time, as having been the rate in effect for corporate loans at large United States of America money center commercial banks (whether or not such rate has actually been charged by any such bank). If The Wall Street Journal ceases publication of the Prime Rate, the “Prime Rate” shall mean the prime rate (or base rate) announced by Wells Fargo Bank, National Association, from its Los Angeles, California office (whether or not such rate has actually been charged by such bank). If such bank discontinues the practice of announcing the Prime Rate, the “Prime Rate” shall mean the highest rate charged by such bank on short-term, unsecured loans to its most creditworthy large corporate borrowers.
- 1.1.75 1.1.76 “Project” means the development of an approximately 750,000 square foot building and related improvements on the Property in accordance with the Lease.
- 1.1.76 1.1.77 “Project Schedule” has the meaning set forth in the Development Management Agreement.
- 1.1.77 1.1.78 “Property” means approximately 35.30 acres of land located in the City of Moreno Valley (Rancho Belago), California, as further described in the Lease, and consisting of both the HFPV Property and the HF-SKX Property.
- 1.1.78 1.1.79 “Purchasing Member” has the meaning set forth in Section 8.6.
- 1.1.79 1.1.80 “Regulations” has the meaning set forth in Exhibit “A”.
- 1.1.80 1.1.81 “Reserves” means cash set aside into a segregated account (or maintained in a non-segregated Company account but specifically “earmarked” as a reserve) as reserves for the Company’s operations or obligations under the Lease (such as, but not limited to, roof replacement and repair and replacement of structural aspects of the building under the Lease, as reasonably determined by the Managing Members, or as set forth in an Operating Budget. Reserves shall include any amounts required to be set aside as reserves under the Loans or under any other agreements executed by the Company which call for reserves of this nature.
- 1.1.81 1.1.82 Intentionally Omitted.
- 1.1.82 1.1.83 “Securities Act” means the Securities Act of 1933, as amended.
- 1.1.83 1.1.84 “Selling Member” has the meaning set forth in Section 8.6.
- 1.1.84 1.1.85 “Skechers” has the meaning set forth in the preamble.
- 1.1.85 1.1.86 “Skechers Loan” has the meaning set forth in Section 6.5(b).
- 1.1.86 1.1.87 “Skechers Parent” means Skechers U.S.A., Inc., a Delaware corporation.
- 1.1.87 1.1.88 “Skechers Managing Member” means Skechers, acting in its capacity as a Managing Member of the Company.
- 1.1.88 1.1.89 “Stated Amount” has the meaning set forth in Section 8.2.
- 1.1.89 1.1.90 “Subsidiary’s Assets” means all assets of any Subsidiary.

1.1.90 1.1.91 “Subsidiaries” means any future subsidiaries of the Company.
1.1.91 1.1.92 “T1” means HF Logistics SKX-T1, LLC, a Delaware limited liability company.
1.1.92 1.1.93 Intentionally Omitted.
1.1.93 1.1.94 “Tax Matters Partner” has the meaning set forth in Section 10.2.1.
1.1.94 1.1.95 “Tenant” means the Skechers Parent, or its permitted assignee as the tenant under the Lease.

1.1.95 1.1.96 “Unrecovered Contribution” with respect to each Member means the aggregate Capital Contributions made by such Member to the Company, reduced by all amounts of cash distributed to such Member pursuant to Section 5.2 (or made under Section 5.2 pursuant to Section 13.2.1(d)).

Section 1.2 Other Terms. All capitalized terms used in this Agreement which are not defined in this 0 shall have the meanings set forth elsewhere in this Agreement.

ARTICLE 2 ORGANIZATIONAL MATTERS

Section 2.1 Formation; Application of Act.

Formation of Company

2.1.2 . The Company has been formed by the filing of the Certificate with the Delaware Secretary of State. The Members hereby agree to become Members and to operate the Company as a limited liability company under and pursuant to the provisions of the Act, and in accordance with the provisions of this Agreement.

2.1.3 Application of Act. The Company is a limited liability company pursuant to the provisions of the Act and upon the terms and conditions set forth in this Agreement. Except as expressly provided herein to the contrary, the rights and obligations of the Members and the administration and operation of the Company shall be governed by the Act.

Section 2.2 Name. The name of the Company is HF Logistics-SKX T2, LLC. The Company’s business may be conducted under the foregoing name, or under any other name or names deemed advisable by the Managing Members. The words “Limited Liability Company,” “L.L.C.,” “LLC” or similar words or letters shall be included in the Company’s name where necessary for the purposes of complying with the laws of any jurisdiction that so requires.

Section 2.3 Registered Office and Agent; Principal Office. The address of the registered office of the Company in the State of Delaware shall be established by the Managing Members. The registered agent for service of process on the Company in the State of Delaware at such registered office is Corporation Service Company. The principal office of the Company is c/o Highland Fairview Properties, 14225 Corporate Way, Moreno Valley, California 92553, or such other place as the Managing Members may from time to time determine.

Section 2.4 Term. The term of the Company commenced on the date that the Certificate was filed with the Delaware Secretary of State, and shall continue for a period of fifty (50) years thereafter,

unless it is dissolved sooner pursuant to the provisions of Article 13, or as otherwise provided under the Act.

Section 2.5 Representations of Members. Each Member represents as follows:

2.5.1 Such Member will acquire its Company Interest for its own account and not with a view to or for sale in connection with any public distribution thereof within the meaning of the Securities Act.

2.5.2 Such Member has sufficient knowledge and experience in financial and business matters to enable it to evaluate the merits and risks of investment in its Company Interest. Such Member has the ability to bear the economic risk of acquiring its Company Interest.

2.5.3 Such Member has been supplied with, or had access to, information to which a reasonable investor would attach significance in making investment decisions, including, without limitation, any Company information with respect to the Company's financial condition, business and prospects, and any other information such Member has requested, to answer all of its inquiries about the Company, and to enable it to make its decision to acquire its Company Interest.

2.5.4 Such Member is aware that the Company Interests are not registered under the Securities Act or any state securities laws and cannot be resold or transferred without registration thereunder or exemption therefrom.

2.5.5 Such Member is an "accredited investor" as such term is defined in Regulation D promulgated under the Securities Act.

2.5.6 There are no consents or approvals of governmental authorities or other Persons that are required for the execution and delivery of this Agreement by such Member; the execution of this Agreement by such Member shall not constitute a default under any material contract or agreement to which such Member is bound; and no agreement or obligation exists that affects such Member that has the effect of restricting the ability of such Member to perform its obligations under this Agreement.

2.5.7 There is no litigation, action or proceeding pending or, to the best knowledge of such Member threatened, to which such Member is party that, if adversely determined, could have a material adverse effect on, or enjoin, restrict or otherwise prevent, the consummation of any of the transactions contemplated by this Agreement or the ability of such Member to perform its obligations under this Agreement.

2.5.8 This Agreement has been duly authorized by all requisite action (corporate, partnership, limited liability company, or otherwise), and has been duly executed and delivered by such Member.

2.5.9 Such Member has the power and authority to enter into this Agreement and consummate the transactions herein provided.

2.5.10 None of the funds or other assets of such Member shall constitute property of, or shall be beneficially owned, directly or indirectly, by any Person subject to trade restrictions under the Prescribed Laws (each such Person, an "**Embargoed Person**") with the result that the transactions contemplated by the terms of this Agreement would be in violation of the Prescribed Laws. For purposes of this Section 2.5.10 and Section 2.5.11 and Section 2.5.12, the term "**Prescribed Laws**" shall mean, collectively, (a) the Uniting and Strengthening America by Providing Appropriate Tools Required to

Intercept and Obstruct Terrorism Act of 2001 (Public Law 107 56) (The USA PATRIOT Act), (b) Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001, and relating to Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism, (c) the International Emergency Economic Power Act, 50 U.S.C. § 1701 *et. seq.* and (d) all other legal requirements relating to money laundering or terrorism.

2.5.11 No Embargoed Person shall have any interest of any nature whatsoever in such Member, with the result that the transactions contemplated by the terms of this Agreement is or would be in violation of the Prescribed Laws.

2.5.12 None of the funds of such Member shall be derived from any unlawful activity with the result that the transactions contemplated by the terms of this Agreement is or would be in violation of the Prescribed Laws.

2.5.13 As long as Skechers Parent is a publicly traded company, the restrictions in Sections 2.5.10 and 2.5.11 shall not apply to any Persons who are shareholders of Skechers Parent who purchase such shares in the public marketplace or from other shareholders.

ARTICLE 3 PURPOSE

Section 3.1 Purpose. The purpose and nature of the business to be conducted by the Company is (a) to acquire the Property and to develop the Project on the Property, and to operate manage, lease, mortgage, encumber, sell and otherwise deal with the Property, the Project and other Company Assets for the production of income and profit, and (b) to conduct any activities that may be lawfully conducted by a limited liability company organized pursuant to the Act in furtherance of the foregoing. The purpose of the Company shall not be changed unless all Members consent (any dispute in this regard shall not be subject to the expedited arbitration provisions in Article 15).

Section 3.2 Powers. The Company is empowered to do any and all acts and things necessary, appropriate, proper, advisable, incidental to or convenient for the furtherance and accomplishment of the purposes described herein and for the protection and benefit of the Company.

ARTICLE 4 CAPITAL CONTRIBUTIONS; MEMBER LOANS; CAPITAL ACCOUNTS

Section 4.1 Capital Contributions of the Members.

4.1.1 Initial Capital Contributions. The Members shall make Initial Capital Contributions to the Company as follows:

(a) On the Closing Date, Skechers shall make an Initial Capital Contribution to the Company in the amount of Seven Million Dollars (\$7,000,000), which shall be contributed in cash. The obligation to fund such Initial Capital Contribution shall be guaranteed by Skechers Parent.

(b) On the Closing Date, HFPV shall convey to the Company, as its Initial Capital Contribution, all of HFPV's interest in the HFPV Property, free and clear of all monetary liens and encumbrances (other than a lien of current property taxes), but subject to all other matters then of record. The HFPV Property has an Agreed Value of \$7,000,000, and HFPV will receive a Capital Account credit in that amount. HFPV shall be deemed to have made representations to the Company, HF and Skechers as set forth on Exhibit "D" attached hereto. Any documentary transfer tax payable with

respect to the conveyance of the HFPV Property to the Company shall be paid by HF (but the amount thereof, up to Seven Thousand Seven Hundred Dollars (\$7,700), shall become part of the HF Loan) and an owner's title insurance policy (ALTA 2006 form with customary endorsements) shall be purchased, at HF's expense (up to policy amounts aggregating \$7,000,000, with the additional expense being borne by the Company) insuring the Company's fee title ownership of the HFPV Property (the policy limits of such policies to be reasonably determined by the Members, not to be less than Seven Million Dollars (\$7,000,000)). After Completion of the Project, the Managing Members may elect to increase the amount of such insurance up to the then insurable fair market value of the Property and all improvements thereon.

(c) On the Closing Date, HF and Skechers shall cause the HF-SKX Property to be free and clear of all monetary liens and encumbrances (other than a lien of current property taxes), but subject to all other matters of record). The HF-SKX Property has an Agreed Value of \$14,000,000, and HF and Skechers shall each receive Capital Account credit in the amount of \$7,000,000. HF and Skechers shall be deemed to have made the representations to the Company and HFPV as set forth on Exhibit "E" attached hereto.

4.1.2 Additional Capital Contributions. If either Managing Member determines in the exercise of its reasonable business judgment that Additional Capital Contributions are necessary for the operation of the business of the Company, or to enable the Company to perform its obligations under the Lease, which cannot be funded from Available Cash or obtained through financing (or which are impractical to be obtained through financing), such Managing Member may (but shall not be required to) give notice to all Members, including the amount required and the purposes therefor. Such Additional Capital Contributions shall be contributed by the Members, pro rata, according to their respective Contribution Percentages, within ten (10) days after receipt of such notice calling for such Additional Capital Contributions. Failure by a Member to make its required Additional Capital Contribution shall give the other Members the rights and remedies specified in Section 4.1.5. If a Member who receives a call for an Additional Capital Contribution disputes the reasonableness of such Additional Capital Contribution, it shall give notice to the Managing Member who made such call and to the other Members within such ten (10) day period, and if the Members cannot resolve the dispute within ten (10) Business Days thereafter, the dispute shall be submitted to expedited arbitration as set forth in Article 15. During the pendency of such arbitration, even though the Member who failed to make the Additional Capital Contribution shall not be deemed to be a Default Member under Section 4.1.5(c), the other Members may elect to loan to the Company (on a pro rata basis according to Contribution Percentages) the amount which such Member failed to contribute in accordance with the provisions of Section 4.1.5(d)(i). Provided, however, that if it is determined through arbitration that such Additional Capital Contribution (or part thereof) was not reasonable, then the loan (to the extent of any amount which was not determined to be reasonable) shall not bear interest.

4.1.3 Return of Capital Contributions. Except as otherwise expressly provided herein, the Capital Contributions of the Members will be returned to the Members only in the manner and to the extent provided in Article 5 and Article 13, and no Member may withdraw from the Company or otherwise have any right to demand or receive the return of its Capital Contributions to the Company. Under circumstances requiring a return of any Capital Contributions, no Member shall have the right to receive property other than cash, unless expressly otherwise provided in this Agreement. Except as otherwise provided in this Agreement, no Member shall be entitled to interest on any Capital Contribution or Capital Account notwithstanding any disproportion therein as among the Members. Neither the Members nor the Company shall be personally liable for the return of any portion of the Capital Contributions of the Members, and the return of such Capital Contributions shall be made solely from the Company Assets to the extent, and in the priority, set forth in this Agreement.

4.1.4 Liability of Members. Except for the obligation to make Capital Contributions (including the Initial Capital Contributions under Section 4.1.1 and any required any Additional Capital Contributions under Section 4.1.2), and any amounts which a Member may be obligated to repay to the Company under applicable law, no Member shall be required to make any Capital Contributions to the Company. Except for the foregoing, no Member shall have any personal liability to contribute money to, or in respect of, the liabilities or the obligations of the Company to third parties, nor shall any Member be personally liable for any obligations of the Company to third parties (unless otherwise provided in any Loan documents or other documents executed by the Members, such as personal guarantees).

4.1.5 Default in Making Required Additional Capital Contributions.

(a) If any Member fails to make its Initial Capital Contribution to the Company, in addition to all other rights and remedies of the other Members, the other Members who made its Initial Capital Contribution may, by notice to the Member who fails to make its Initial Capital Contribution, with a copy to the other Members, elect to declare this Agreement null and void, and in such event any Initial Capital Contributions (whether in cash or in property) made to the Company by any Member shall be immediately returned, and the Company shall be wound up and dissolved.

(b) If any Member fails to make a required Additional Capital Contribution, any of the other Members may send a notice (the “**Default Notice**”) to such Member who failed to make the required Additional Capital Contribution, with a copy to the other Members, notifying such Member of its failure to make such Additional Capital Contribution, the amount of such Additional Capital Contribution, and demanding that such Additional Capital Contribution be made immediately.

(c) If a Member who receives a Default Notice fails to make a required Additional Capital Contribution within five (5) Business Days after receiving the Default Notice (the failure to make such Additional Capital Contribution is referred to as a “**Default**” and the date that is five (5) Business Days after the receipt of the Default Notice is referred to as the “**Default Date**”), then such Member shall be in default (a “**Default Member**” and the amount that the Default Member has failed to contribute is referred to as the “**Default Amount**”). The Members other than the Default Member are referred to herein as the “**Non-Defaulting Members**.” No Member shall be deemed to be a Default Member during the pendency of any expedited arbitration under Article 15 to determine whether a request for an Additional Capital Contribution is reasonable under Section 4.1.2. If as a result of such arbitration, it is determined that the request for an Additional Capital Contribution was reasonable, then the Member who failed to make such Additional Capital Contribution shall, within five (5) Business Days thereafter, make any such Additional Capital Contribution which was not made (and which was determined to be reasonable), and failing to do so, such Member shall be a Default Member.

(d) If a Default Member fails to make such Additional Capital Contribution on or before the Default Date, the Non-Defaulting Members may, in their sole and absolute discretion, as their sole remedy, take either of the following courses of action:

(i) Any Non-Defaulting Member can withdraw any Additional Capital Contribution made by it in connection with the capital call which resulted in the Default (and to that end; in such event, such Non-Defaulting Member shall have the right to make a loan to the Company in the amount of the Additional Capital Contribution required of such Non-Defaulting Member and the Default Member under Section 4.1.2, which loan shall bear interest (except as provided in Section 4.1.2) at the lesser of the Prime Rate plus ten percent (10%) per annum, or the maximum amount allowable by law, which loan shall be repayable upon demand. Such loan will have priority over any distributions to be made to the Members pursuant to Section 5.2 or Section 13.2 and over the repayment of any loan payable to the Default Member (or its Affiliate); or

(ii) Any Non-Defaulting Member may make an Additional Capital Contribution to the Company in the amount of the Default Amount, and then, effective as of the date on which such Non-Defaulting Member makes such Additional Capital Contribution to the Company, the Distribution Percentages of the Members shall automatically be adjusted to reflect the new ratio of the Capital Contributions of the respective Members to the total of all Capital Contributions of all Members.

(e) Notwithstanding anything herein to the contrary, for the purposes of this Section 4.1.5, the Company Interests of HF and HFPV shall be treated as one, and therefore, if either HF or HFPV fails to make a required Additional Capital Contribution and the other does not cure such default on behalf of the defaulting Member, then both HF and HFPV shall be deemed to be a Default Member and Skechers, as the Non-Defaulting Member, shall have the right to pursue the remedies in this Section 4.1.5 against both HF and HFPV.

4.1.6 EACH MEMBER ACKNOWLEDGES AND AGREES THAT IT FULLY UNDERSTANDS THAT ITS INTEREST IN DISTRIBUTIONS AND CAPITAL MAY BE SUBSTANTIALLY DILUTED FOR FAILING TO MAKE REQUIRED ADDITIONAL CAPITAL CONTRIBUTIONS UNDER THIS ARTICLE 4. EACH MEMBER FURTHER ACKNOWLEDGES AND AGREES THAT EXCEPT AS SET FORTH IN SECTION 4.1.5(a), THIS SECTION 4.1.6, AND IN SECTION 5.2(b), THE REMEDIES ABOVE ARE THE SOLE AND EXCLUSIVE REMEDIES AVAILABLE TO THE NON-DEFAULTING MEMBERS AS A RESULT OF SUCH DEFAULT. NOTWITHSTANDING THE FOREGOING, IF A DEFAULT BY SKECHERS UNDER ARTICLE 4 RESULTS IN THE INABILITY OF THE COMPANY TO PERFORM ITS OBLIGATIONS UNDER THE LEASE THEN THE TENANT UNDER THE LEASE SHALL NOT BE ENTITLED TO DECLARE THE COMPANY TO BE IN DEFAULT UNDER THE LEASE AS A RESULT THEREOF. ADDITIONALLY, IF A DEFAULT BY ANY MEMBER UNDER ARTICLE 4 RESULTS IN THE INABILITY OF THE COMPANY TO PERFORM ITS OBLIGATIONS UNDER THE LEASE THEN, IN ADDITION TO ANY RIGHTS AND REMEDIES THAT THE NON-DEFAULTING MEMBERS MAY HAVE AGAINST THE DEFAULT MEMBER HEREUNDER, THE DEFAULT MEMBER SHALL BE SOLELY RESPONSIBLE FOR ALL CLAIMS OF TENANT UNDER THE LEASE AS A RESULT THEREOF.

ARTICLE 5 DISTRIBUTIONS AND ALLOCATIONS

Section 5.1 Distributions: General Principles. Except as provided in Section 13.2, Available Cash shall be distributed to the Members monthly in accordance with the provisions of Section 5.2.

Section 5.2 Distributions. Except as provided in Section 5.2(b) and 5.2(c), distributions of Available Cash shall be made to the Members in the following order of priority set forth in Section 5.2(a):

(a) To the Members *pari passu* in proportion to their respective Distribution Percentages.

(b) Notwithstanding the foregoing priority set forth in Section 5.2(a), the following special distribution rules shall apply: If a Member fails to make an Additional Capital Contribution under Section 4.1.2, and the Non-Defaulting Member elects to make an Additional Capital Contribution under Section 4.1.5(d)(i), then the amount of such Additional Capital Contribution shall accrue a preferred return at the rate of 11% per annum, and the total amount of such Additional Capital Contribution, plus such preferred return, shall become a

priority distribution to be made before any other distributions to the Members under Section 5.2(a), or pursuant to Section 13.2.1(c), and before any repayment of any loan payable to the Defaulting Member under Article 6.

(c) Notwithstanding any provision to the contrary in this Agreement, before any distribution of Available Cash under Article 5 (including any distribution or special distribution under Sections 5.2(a) or 5.2(b)), any payments of other Loans due to any Member as described in Section 6.5, and any payments due to any Member under the buy-sell provisions in Article 8 or in any liquidation or disposition of the Company or any of the Company Assets is made, Skechers shall be entitled to receive distributions in cash equal in amounts to the principal, interest (with interest calculated at the “fixed rate” which would be applicable after giving effect to any swap contract with respect to Loan in question (or any refinancing or replacement financing thereof), fees (including all swap costs), costs and expenses paid by the Company to the holders of such Loan during the month (including any payments on maturity) in which the distribution is made. Distributions under this clause (c), other than distributions made pursuant to this clause (c) in an amount equal to the monthly principal payments made on any Loan referenced in the first sentence of this Section 5.2(c), shall not reduce the Unrecovered Contributions of Skechers. The Members further agree that, if Skechers receives any distribution of Available Cash from a refinancing of a Loan (or any replacement financing) in excess of the total distribution (if any) received by the HF Member from such refinancing or replacement financing (such excess being referred to in this clause (c) as the “**Refinancing Excess Distribution**”), the amount of the distributions to be paid to Skechers under this Section 5.2(c) shall be reduced to the extent of the additional debt service resulting from such Refinancing Excess Distribution.

(d) Notwithstanding the provisions of Section 5.2(a)-(c) or any other provision to the contrary in this Agreement, all Capital Transaction Proceeds shall be paid to Skechers until the Unrecovered Contributions of both Members are equal, and any excess distributions shall be made in accordance with the Members' Distribution Percentages. As used herein, the following terms have the meanings indicated:

“**Capital Transaction**” means any of the following: (i) a sale, exchange, transfer, assignment or other disposition of all or a portion of any Company Asset (but not including sales in the ordinary course of business of inventory, operating equipment or furniture, fixtures, and equipment); (ii) any financing or refinancing of, or with respect to, any Company Asset except for equipment leases or purchase money financing for movables; (iii) any condemnation or transfer in lieu of condemnation of all or a portion of any Company Asset; (iv) any collection in respect of property, hazard, or casualty insurance (but not business interruption insurance) or any damage award; or (v) any other transaction the proceeds of which, in accordance with generally accepted accounting principles, are considered to be capital in nature.

“**Capital Transaction Proceeds**” means all cash received by the Company from a Capital Transaction, less the sum of the following for which Capital Transaction Proceeds are used by the Company, (i) all expenses paid or incurred in connection with such Capital Transaction, (ii) amounts received from a Capital Transaction applied to repayment of indebtedness and (iii) such additions to reserves for capital expenditures, liabilities or obligations of the Company or

other purposes as Skechers may determine to be necessary. All amounts released from time to time from such reserves other than for application to the purpose for which the reserve was established shall be deemed to be Capital Transaction Proceeds.

Section 5.3 Allocations. Profits and losses of the Company (and all related items of income, gain, loss, deduction and credit) shall be allocated between the Members in the manner provided in Exhibit "A".

ARTICLE 6 LOANS

Section 6.1 Construction Loan. The Company shall take out a Construction Loan or Construction Loans to finance the development of the Project on the Property. Except as set forth in Section 6.4, the Lender of the Construction Loan(s) shall be selected by the HF Managing Member. Any guarantees (completion, payment or otherwise) required by the Lender of the Construction Loan(s) shall be provided by both HF (or an Affiliate of HF) and Skechers (or an Affiliate of Skechers). HF shall cause an HF Affiliate acceptable to the Construction Lender to provide such guarantees, and Skechers shall cause a Skechers Affiliate acceptable to the Construction Lender to provide such guarantee.. If a Construction Loan (or Construction Loans) sufficient to fund the entire cost of developing the Project on the Property cannot be obtained, HF may, at its option, loan its own funds (or funds of its Affiliates) to the Company in lieu of the Construction Loan (the interest rate on the in-lieu construction loan shall be the rate which is then being charged by institutional construction lenders in the marketplace for construction loans of this amount and nature, and the terms and conditions of such loan shall be comparable to loans then being made by such institutional construction lenders). HF shall take the lead in procuring the Construction Loan, and Skechers shall cooperate with HF in connection therewith. Skechers shall have the right to review and comment on the terms and conditions of the Construction Loan(s), and the Construction Loan documentation, but (except as set forth in Section 6.4) the decisions of HF in this regard shall control and will be final and conclusive (provided that HF shall act in good faith and consistent with its fiduciary duties hereunder) and the HF Managing Member, acting alone, is authorized and empowered to execute and deliver on behalf of the Company, all Construction Loan Documents, and the Construction Lender may rely on the signature of the HF Managing Member as binding the Company regardless of any possible claims by Skechers that HF did not act in good faith or consistent with its fiduciary obligations hereunder. Notwithstanding the foregoing, Skechers Parent shall not be required to materially amend or modify the Lease in connection with obtaining the Construction Loan (except for any reasonable and customary modifications which may be required under a subordination, non-disturbance and attornment agreement). Skechers shall be given reasonable advance notice of any regularly scheduled meetings with the prospective Construction Lender at which material issues regarding the Construction Loan are expected to be discussed and shall have the right to attend all such meetings (whether conducted in person or by telephone or electronic meeting). Skechers shall also have the right to communicate directly with the Construction Lender to discuss the status of the Construction Loan, but will not negotiate any of its terms or conditions without the express prior approval of the HF Managing Member.

Section 6.2 Permanent Loan. The Company shall take out a Permanent Loan as soon as practical after the Completion of the Project being developed on the Property, although nothing herein shall prohibit HF from seeking such Permanent Loan at an earlier time. HF (or its Affiliate) will be required to execute any "bad boy" nonrecourse carve-out guarantees reasonably required by the Lender of the Permanent Loan, but shall not otherwise be required to guarantee the Permanent Loan. However, if any Permanent Loan refinances Skechers' share of construction costs and/or is used for a distribution to Skechers, then such "bad boy" non-recourse carve-out guarantee shall be provided by both HF (or an Affiliate of HF) and Skechers (or an Affiliate of Skechers). HF shall cause an HF Affiliate acceptable to the Permanent Lender to provide such guarantees. HF shall take the lead in procuring the Permanent

Loan, and Skechers shall cooperate with HF in connection therewith (including using commercially reasonable efforts, at Company expense, to obtain a credit rating from a recognized credit rating agency as may be required by the Permanent Lender. Skechers shall have the right to review and comment on the terms and conditions of the Permanent Loan (including a possible participating equity interest in the Company or any Subsidiary afforded to the Permanent Lender), and the Permanent Loan documentation, but, except as provided in Section 6.4, the decisions of HF in this regard shall control and will be final and conclusive (provided that HF shall act in good faith and consistent with its fiduciary duties hereunder). Notwithstanding the foregoing, Skechers Parent shall not be required to materially amend or modify the Lease in connection with obtaining the Permanent Loan (except for any reasonable and customary modifications which may be required under a subordination, non-disturbance and attornment agreement) or otherwise. Skechers shall be given reasonable advance notice of any regularly scheduled meetings with the prospective Permanent Lender at which material issues regarding the Permanent Loan are expected to be discussed and shall have the right to attend all such meetings (whether conducted in person or by telephone or electronic meeting). Skechers shall also have the right to communicate directly with the Permanent Lender to discuss the status of the Permanent Loan, but will not negotiate any of its terms or conditions without the express prior approval of the HF Managing Member.

Section 6.3 Indemnification. The Company and the Subsidiaries shall indemnify HF (or its Affiliates) and Skechers (or its Affiliates) from any liability which may be incurred in connection with their respective guarantees of the Construction Loan, and shall indemnify HF (or its Affiliates) from any liability which may be incurred in connection with a “bad boy” nonrecourse carve-out guarantee of the Permanent Loan, but excluding in each case liability resulting from a default by the Development Manager under the Development Management Agreement, the occurrence of an Event of Default by HF or Skechers under this Agreement, or the gross negligence or willful misconduct HF or its Affiliates, or Skechers or its Affiliates, as the case may be. However, to the extent that liability under the “bad boy” nonrecourse carve-out guarantee results from the acts or omissions of Skechers or the occurrence of an Event of Default by Skechers under this Agreement, or a default by Skechers Parent under the Lease, then such indemnification shall be afforded primarily by Skechers and only secondarily by the Company.

Section 6.4 Further Actions with Respect to Permanent Loans.

(a) Notwithstanding any provision to the contrary in this Agreement, but subject to Section 7.1.4 and except as provided in Section 6.4(b), all actions, consents, approvals or decisions to be made by the Company in connection with the Permanent Loans (including, without limitation, any amendment of the Permanent Loan) or any other financing of the Project, or the pledge or encumbrance of Company Assets or assets of any Subsidiary shall only be made with the consent of all Members, which consent will not be unreasonably withheld. Inasmuch as it is the intent of the HF Member to obtain maximum financing for construction and to refinance the Construction Loan at maturity, the consent of the Skechers Member shall only be required as to the terms and conditions of the Construction Loan and any such refinancing (including, without limitation, the amount of such refinancing if the amount is in excess of the principal then outstanding, plus 50% of the “excess value”, as described below), and not as to whether the outstanding principal amount of such Loan should be paid off, paid down or refinanced, and not to the taking out of such Loan. Each Permanent Loan will, to the extent financeable, be in an original principal amount equal to the unpaid balance of the Loan which it refinances, plus the “excess value” of the Property (over the unpaid balance of the Construction Loan), as determined by an appraisal obtained by the new Lender, such that an amount equal to such “excess value” can be distributed to the Members upon such Permanent Loan closing. If Skechers declines to take its share of such distribution, the amount of the applicable Permanent Loan shall be reduced by 50% of the “excess value” and the HF Member may still take such distribution, and which will then create an Unrecovered Contribution Difference for Skechers, as defined in Section 6.4(b). If Skechers elects to fund (a “Skechers Funding”) its share of construction costs (rather than having its share of the Construction Loan borrowed for construction or refinanced), then the amount of the Skechers Funding shall be added to the unpaid principal balance of the Construction Loan (after giving effect to the Skechers Funding) for the purpose of calculating the “excess value” in the preceding sentence.

(b) Notwithstanding any provision to the contrary in this Agreement or Section 6.4(a), the Skechers Member may at any time, or from time to time, after the initial Construction Loan has been refinanced, if Skechers elected not to take a distribution of cash from such refinancing Loan, cause the Company to refinance the existing Loan or increase the principal amount of the then existing Loan for the purpose of distributing sufficient funds to the Company so that the Company may provide a distribution to the Skechers Member (or an Affiliate of the Skechers Member) up to an amount equal to the difference between the Skechers Member's Unrecovered Contribution and the HF Member's Unrecovered Contribution at such time (the "**Unrecovered Contribution Difference**"). The HF Member hereby consents to the foregoing use of proceeds of such refinancing or increase, it being understood and agreed that the HF Member shall not receive any proceeds of such refinancing or increase until the Skechers Member has received the Unrecovered Contribution Difference as described in the preceding sentence. To the extent that any such refinancing or increase to the principal amount of a Loan results in Capital Transaction Proceeds, such Capital Transaction Proceeds shall be distributed in the manner set forth in Section 5.2(d). The terms and loan documentation for such refinancing or increase to the Loan shall be determined by the Skechers Member in its sole and absolute discretion, without any required consent or approval by the HF Member. Provided, however, that if the interest rate applicable to such refinancing or increase is less favorable to the Company than the terms of such Loan, arrangements shall be made (by an amendment to this Agreement, or otherwise) such that the HF Member shall not, through the maturity date of such Loan, be in a less favorable economic position than it was immediately prior to such refinancing or increase.

(c) Notwithstanding any provision to the contrary in this Agreement, if upon any refinancing or extension of a Loan, or any replacement refinancing thereof (other than a refinancing, extension or replacement financing under Section 6.4(b)) (the "**Subject Refinancing**"), the Company is unable to obtain sufficient financing to cause a distribution in the amount of the Unrecovered Contribution Difference to be made to the Skechers Member, the HF Member hereby agrees to immediately make a contribution to the Company (which amount shall be immediately distributed to the Skechers Member) in the amount necessary so that, after giving effect to such Subject Refinancing, the Unrecovered Contributions of both Members are equal (the "**HF Unrecovered Contribution Difference Payment**"). If the HF Member fails to make the HF Unrecovered Contribution Difference Payment as set forth above, the Skechers Member shall have all rights and remedies available under this Agreement, including, without limitation, Section 6.9 and, in addition, the HF Member shall immediately be deemed to have transferred and assigned all of its Company Interests to the Skechers Member (for no additional consideration), the Skechers Member shall be deemed to be the legal and beneficial owner of all such Company Interests and the HF Member shall cease to be a Member of the Company and shall cease to have any rights or claims under this Agreement or with respect to the Company Interests. Without limiting the automatic nature of the transfer of the Company Interests set forth in the preceding sentence, the HF Member hereby agrees to take any and all actions reasonably requested by the Skechers Member to evidence such transfer of the Company Interests, and the HF Member hereby irrevocably constitutes and appoints the Skechers Member and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the HF Member and in the name of the HF Member, or in its own name, for the purpose of taking any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Section or Section 6.9 and to evidence such transfer of the Company Interests by the HF Member to the Skechers Member in accordance with this Section or Section 6.9. The Members hereby agree that the HF Member shall not be permitted to make demand for or request an Additional Capital Contribution or an additional loan from Skechers for all or any part of the HF Unrecovered Contribution Difference Payment (whether under Section 4.1.2 or Article 6 of this Agreement or otherwise). THE HF MEMBER ACKNOWLEDGES AND AGREES THAT IT FULLY UNDERSTANDS THAT ITS COMPANY INTERESTS AND ITS INTEREST IN DISTRIBUTIONS AND CAPITAL MAY BE LOST FOR FAILING TO MAKE THE REQUIRED HF UNRECOVERED

CONTRIBUTION DIFFERENCE PAYMENT UNDER THIS SECTION 6.4(c). THE HF MEMBER FURTHER AGREES THAT A BREACH OF ANY OF THE AGREEMENTS CONTAINED IN THIS SECTION 6.4(c) WILL CAUSE IRREPARABLE INJURY TO THE SKECHERS MEMBER, THAT THE SKECHERS MEMBER DOES NOT HAVE AN ADEQUATE REMEDY AT LAW IN RESPECT OF SUCH BREACH AND, AS A CONSEQUENCE, THAT EACH AND EVERY COVENANT AND AGREEMENT CONTAINED IN THIS SECTION 6.4(c) SHALL BE SPECIFICALLY ENFORCEABLE AGAINST THE HF MEMBER, AND THAT THE HF MEMBER HEREBY WAIVES AND AGREES NOT TO ASSERT ANY DEFENSES TO THE EFFECT THAT SPECIFIC PERFORMANCE OF SUCH COVENANTS OR AGREEMENTS IS NOT AVAILABLE AS A REMEDY.

(d) Notwithstanding any provision to the contrary in this Agreement, at the time the Construction Loan or any replacement thereof is proposed to be refinanced (in whole or in part), the maturity date thereof is proposed to be extended, the principal amount thereof is proposed to be increased or the terms and conditions thereof are proposed to be changed in any material respect, Skechers shall be entitled to notice of any such proposal (which notice shall set forth the terms and conditions thereof), and Skechers (or one of its Affiliates) shall have the right to become the lender to the Company on the same terms and conditions so proposed, provided that Skechers gives the HF Member notice of such election within five (5) Business Days after receipt of such proposal.

Section 6.5 Member Loans.

(a) Concurrently with the contribution of the Initial Capital Contributions as described above, HF will (and will cause its Affiliates to) transfer and assign to the Company all of its right, title and interest in all personal property and contracts relating to the development of the Project, and all plans, specifications, architectural drawings and renderings, surveys and other collateral material relating to the ownership and development of the Property. In consideration of such transfer and assignment, HF will be deemed to have extended a loan to the Company in the amount of at least \$1,781,768.26 (the "**HF Loan**"). The foregoing amount was computed as of November 30, 2018 and may have increased as of the Effective Date. The HF Loan will bear interest at the rate of six percent (6%) per annum, with interest and principal payable monthly from the first Available Cash (prior to any distributions of Available Cash to the Members), with any unpaid balance of interest and principle payable upon the earliest to occur of (i) the Construction Loan (if permitted by the Construction Lender), (ii) the refinancing or sale of the Project, or (iii) the liquidation of the Company (again, before any distributions of Available Cash to the Members except as provided in Section 5.2(c)).

(b) If the HF Managing Member determines in the exercise of its reasonable business judgment that additional capital is needed as a result of construction cost overruns relative to the construction of the Project on the Property (which specifically excludes increased construction costs due to change orders requested by Skechers and approved by the landlord under the Lease, or resulting from the acts or omissions of Skechers under the Lease), which cannot be funded from Available Cash or obtained through financing (or which are impractical to be obtained through financing), such capital shall be loaned to the Company 50% by HF (or its Affiliate) and 50% by Skechers (or its Affiliate) and the amount thereof will be added to the HF Loan and the Skechers Loan; provided, however, that cost overruns resulting from an Event of Default by HF under this Agreement or a default by the Development Manager under the Development Management Agreement, or which involves the gross negligence, fraud or willful misconduct of HF (or its Affiliate) shall not be considered part of the HF Loan.

(c) If the HF Managing Member determines in the exercise of its reasonable business judgment that additional capital is needed as a result of increased construction costs due to change orders requested by Skechers and approved by the Company, or resulting from the acts or

omissions of Skechers under the Lease, then such capital shall be loaned to the Company by Skechers (or its Affiliate) (the “**Skechers Loan**”), provided that the increase in construction costs covered by the Skechers Loan shall not exceed One Million Dollars (\$1,000,000), and any excess construction costs over \$1,000,000 shall be paid by Skechers as its own expense, and such amount shall not be considered income of the Company, or a loan or a Capital Contribution to the Company, or part of the Skechers Loan, or an Additional Capital Contribution by Skechers. Provided, however, that any increased construction costs resulting from acts or omissions of Skechers (or its Affiliate) which constitute an Event of Default by Skechers under this Agreement or a default by Skechers Parent under the Lease, or which involves gross negligence, fraud or willful misconduct of Skechers or Skechers Parent (or their Affiliates) shall not be considered as part of the Skechers Loan; and provided, further that to the extent that the Skechers Loan is increased as a result of the foregoing Base Rent under the Lease, shall be increased proportionately by the ratio that the increase in the Skechers Loan bears to the total Project Costs (as such term is defined in the Development Management Agreement). The HF Managing Member shall not unreasonably withhold its consent to any change order requested by Skechers Parent if Skechers funds the entire cost of such change order (including any resulting increases in the Project Costs). If there is a dispute as to whether the refusal of the HF Managing Member to give its consent to any change order proposed by Skechers is reasonable, the matter shall be submitted to expedited arbitration in accordance with Article 15.

(d) If there is any dispute regarding the reasonableness of the determination by the HF Managing Member that additional capital is required under Section 6.5(b) or (c), such dispute shall be submitted to expedited arbitration as set forth in Article 15. During the pendency of such arbitration, even though the Member who has failed to make a loan to the Company shall not be deemed to be in default under this Agreement, the other Member may elect to loan to the Company the amount which the other Member failed to loan, and if it is determined through arbitration that the required loan was not reasonable, then the amount loaned by the other Member (to the extent of any amount which was not determined to be reasonable) shall not bear interest.

Section 6.6 Default in Making Required Loans.

(a) If either Skechers or HF fails to make any required loan pursuant to Section 6.5 (an “**Additional Funding Obligation**”), the other Member may send a notice to such Member who failed to make the required Additional Funding Obligation, notifying such Member of its failure to make such Additional Funding Obligation, the amount to be funded and demanding that such Additional Funding Obligation be made immediately.

(b) If the Member who receives such notice fails to make the required Additional Funding Obligation within five (5) Business Days after the receipt of such notice, then the other Member shall have the following rights:

(i) Such Member may loan the required funds to the Company, which amount so loaned shall bear interest and be payable in the same manner as the loan described in Section 4.1.5(d)(i); or

(ii) Such Member may make an Additional Capital Contribution to the Company in the amount of the required Additional Funding Obligation, in which event the Distribution Percentages shall be adjusted in the manner set forth in Section 4.1.5(d)(ii).

Section 6.7 EACH MEMBER ACKNOWLEDGES AND AGREES THAT IT FULLY UNDERSTANDS THAT ITS INTEREST IN DISTRIBUTIONS AND CAPITAL MAY BE SUBSTANTIALLY DILUTED FOR FAILING TO MAKE A REQUIRED ADDITIONAL FUNDING

OBLIGATION UNDER THIS ARTICLE 6. EACH MEMBER FURTHER ACKNOWLEDGES AND AGREES THAT EXCEPT AS SET FORTH IN THIS SECTION 6.7 AND IN SECTION 5.2(b), THE REMEDIES ABOVE ARE THE SOLE AND EXCLUSIVE REMEDIES AVAILABLE TO THE NON-DEFAULTING MEMBER AS A RESULT OF SUCH DEFAULT. NOTWITHSTANDING THE FOREGOING, IF A DEFAULT BY SKECHERS UNDER ARTICLE 6 RESULTS IN THE INABILITY OF THE COMPANY TO PERFORM ITS OBLIGATIONS UNDER THE LEASE THEN THE TENANT UNDER THE LEASE SHALL NOT BE ENTITLED TO DECLARE THE COMPANY TO BE IN DEFAULT UNDER THE LEASE AS A RESULT THEREOF. ADDITIONALLY, IF A DEFAULT BY ANY MEMBER UNDER ARTICLE 6 RESULTS IN THE INABILITY OF THE COMPANY TO PERFORM ITS OBLIGATIONS UNDER THE LEASE THEN, IN ADDITION TO ANY RIGHTS AND REMEDIES THAT THE NON-DEFAULTING MEMBERS MAY HAVE AGAINST THE DEFAULTING MEMBER HEREUNDER, THE DEFAULTING MEMBER SHALL BE SOLELY RESPONSIBLE FOR ALL CLAIMS OF TENANT UNDER THE LEASE AS A RESULT THEREOF.

Section 6.8 Repayment of Loan. Notwithstanding any provision to the contrary in this Agreement or otherwise, the Members hereby agree that if the obligations under any Loan, or any replacement or refinancing thereof which occurs after the HF Member has received a distribution of 50% of the excess value as described in Section 6.4(a) (other than a refinancing requested pursuant to Section 6.4(b)) (the "**Subject Permanent Loan**") become due at maturity, by acceleration, as a result of the occurrence of any prepayment event or for any other reason whatsoever (including, without limitation, the inability for any reason to refinance or replace the Subject Permanent Loan), the HF Member shall (to the extent it has received a greater distribution than the Skechers Member) be obligated to immediately contribute sufficient funds to the Company in order to cause the repayment of any and all obligations (whether for principal, interest, fees, costs, expenses or otherwise) due and payable under the Subject Permanent Loan and the loan documentation therefor (the "**HF Repayment Contribution**"). If the HF Member fails to make the HF Repayment Contribution as set forth above, the Skechers Member shall have all rights and remedies available under this Agreement, including, without limitation, Section 6.9, and, in addition, the Skechers Member shall have the right to (but shall not be obligated to) make a contribution to the Company in the amount of the HF Repayment Contribution in order to cause the repayment of any and all obligations (whether for principal, interest, fees, costs, expenses or otherwise) due and payable under the Subject Permanent Loan and the loan documentation therefor (the "**Skechers Payoff Contribution**"). Notwithstanding any provision to the contrary in this Agreement or otherwise (including, without limitation, Sections 4.1.4 and 17.14 of this Agreement), if Skechers makes the Skechers Payoff Contribution, the HF Member shall immediately be deemed to have transferred and assigned all of its Company Interests to the Skechers Member (for no additional consideration), the Skechers Member shall be deemed to be the legal and beneficial owner of all such Company Interests and the HF Member shall cease to be a Member of the Company and shall cease to have any rights or claims under this Agreement or with respect to the Company Interests. Without limiting the automatic nature of the transfer of the Company Interests set forth in the preceding sentence, the HF Member hereby agrees to take any and all actions reasonably requested by the Skechers Member to evidence such transfer of the Company Interests, and the HF Member hereby irrevocably constitutes and appoints the Skechers Member and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the HF Member and in the name of the HF Member or in its own name, for the purpose of taking any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Section or Section 6.9 and to evidence such transfer of the Company Interests by the HF Member to the Skechers Member in accordance with this Section or Section 6.9. The Members hereby agree that the HF Member shall not be permitted to make demand for or request an Additional Capital Contribution or an additional Loan from Skechers for all or any part of the HF Repayment Contribution (whether under Section 4.1.2 or Article 6 of this Agreement or otherwise). THE HF MEMBER

ACKNOWLEDGES AND AGREES THAT IT FULLY UNDERSTANDS THAT ITS COMPANY INTERESTS AND ITS INTEREST IN DISTRIBUTIONS AND CAPITAL MAY BE LOST FOR FAILING TO MAKE THE REQUIRED HF PREPAYMENT CONTRIBUTIONS UNDER THIS SECTION 6.8. THE HF MEMBER FURTHER AGREES THAT A BREACH OF ANY OF THE AGREEMENTS CONTAINED IN THIS SECTION WILL CAUSE IRREPARABLE INJURY TO THE SKECHERS MEMBER, THAT THE SKECHERS MEMBER DOES NOT HAVE AN ADEQUATE REMEDY AT LAW IN RESPECT OF SUCH BREACH AND, AS A CONSEQUENCE, THAT EACH AND EVERY COVENANT AND AGREEMENT CONTAINED IN THIS SECTION SHALL BE SPECIFICALLY ENFORCEABLE AGAINST THE HF MEMBER, AND THAT THE HF MEMBER HEREBY WAIVES AND AGREES NOT TO ASSERT ANY DEFENSES TO THE EFFECT THAT SPECIFIC PERFORMANCE OF SUCH COVENANTS OR AGREEMENTS IS NOT AVAILABLE AS A REMEDY.

Section 6.9 PLEDGE OF COMPANY INTERESTS BY HF MEMBER.

In the event that any Loan is refinanced resulting in an Unrecovered Contribution Difference, then in order to secure the prompt payment in full in cash, and the prompt and full performance, of the obligations of the HF Member under Section 6.4(c) and Section 6.8, the HF Member will then pledge to the Skechers Member and grant to the Skechers Member a security interest in and to all of the HF Member's Company Interests, whether then existing or thereafter arising (the "**Collateral**"). The security interest and pledge created hereby shall continue in effect so long as any obligation is owed to the Skechers Member under Section 6.4(c) and Section 6.8. The agreements in this paragraph are a continuing and irrevocable agreement of the HF Member. The Skechers Member may (and is hereby authorized to) file with any filing office such financing statements, amendments, addenda, continuations, terminations, assignments and other records (whether or not executed by HF Member) as the Skechers Member may deem necessary in its sole discretion to perfect and to maintain perfected its security interests in the Collateral. Such documents may designate the Skechers Member as the secured party and the HF Member as the debtor, identify the Skechers Member security interest in the Collateral, and contain any other items required by law or deemed necessary by the Skechers Member. Upon the occurrence of a breach by the HF Member of its obligations under Section 6.4(c) and Section 6.8 (each an "**HF Default**"), at the option of the Skechers Member, exercisable by giving written notice to the HF Member of its election to exercise this option, all rights of the HF Member to exercise the voting and other consensual rights which it would otherwise be entitled to exercise with respect to the Company Interests shall cease, and all such rights shall thereupon become vested in the Skechers Member who shall have the sole right to exercise such voting and other consensual rights. Furthermore, upon the occurrence of an HF Default, the Skechers Member may pursue any remedy available under this Agreement or at law (including under the provisions of the Uniform Commercial Code) or in equity to collect, enforce or satisfy any of the obligations then owing under this Agreement, whether by acceleration or otherwise, all of which remedies may be pursued by the Skechers Member separately, successively or simultaneously, and at the sole option of and in the sole discretion of the Skechers Member, including the following specific remedies: (a) in accordance with applicable law, to foreclose the liens and security interests relating to the Collateral by any available judicial procedure or without judicial process, and to sell, assign or otherwise dispose of the Collateral or any part thereof, either at public or private sale or at any broker's board or securities exchange, in whole or in parts (without omitting the generality of the foregoing, the Collateral may be sold in its entirety to one buyer or in parts to more than one buyer), for cash, on credit or on future delivery, or otherwise, with or without representations or warranties, and upon such terms as shall be acceptable to the Skechers Member; and (b) whether or not any of the Collateral has been effectively registered under the Securities Act of 1933, as amended, or other applicable laws, the Skechers Member may, in its sole and absolute discretion, sell all or any part of the Collateral at private sale in such manner and under such circumstances as the Skechers Member may deem necessary or advisable in order that the sale may be lawfully conducted. Without limiting the foregoing, the Skechers Member may (a)

approach and negotiate with a limited number of potential purchasers, and (b) restrict the prospective bidders or purchasers to Persons who will represent and agree that they are purchasing the Collateral for their own account for investment and not with a view to the distribution or resale thereof. In the event that any of the Collateral is sold at private sale, the HF Member agrees that if the Collateral is sold for a price which the Skechers Member in good faith believes to be reasonable, then (1) the sale shall be deemed to be commercially reasonable in all respects, (2) the HF Member shall not be entitled to a credit against the obligations owed in an amount in excess of the purchase price, and (3) the Skechers Member shall not incur any liability or responsibility to the HF Member in connection therewith, notwithstanding the possibility that a substantially higher price might have been realized at a public sale. The HF Member recognizes that a ready market may not exist for Collateral which is not regularly traded on a recognized securities exchange or in another recognized market, and that a sale by the Skechers Member of any such Collateral for an amount substantially less than a pro rata share of the fair market value of the issuer's assets minus liabilities may be commercially reasonable in view of the difficulties that may be encountered in attempting to sell Collateral that is privately trade. The HF Member represents and covenants that it has and at all times shall have good and marketable title to all Collateral in which the HF Member is purporting to grant a security interest to the Skechers Member, it has not transferred, pledged or assigned any of its interests in the Collateral since the Effective Date, and the Collateral shall not at any time be transferred or assigned to any Person (other than the Skechers Member) or be subject to any lien or encumbrance (other than in favor of the Skechers Member). The HF Member represents that it has the right and power to pledge and grant to the Skechers Member a security interest in the Collateral on the terms set forth in this Agreement.

ARTICLE 7 MANAGEMENT AND OPERATION OF BUSINESS

Section 7.1 Management.

7.1.1 Powers of the Managing Members.

(a) Subject to the limitations set forth herein, all management powers over the business and affairs of the Company are exclusively vested in the Managing Members, and no Member other than the Managing Members shall have any right to participate in or exercise control or management power over the business and affairs of the Company.

(b) Unless and until it is removed as a Managing Member pursuant to Section 7.1.5, the Skechers Managing Member shall have exclusive management, responsibility and control over the operations of the building which is the subject of the Lease after completion of construction and Skechers taking possession of the premises described in the Lease (subject to the obligations of the tenant under the Lease). In addition to the foregoing, the Skechers Managing Member shall have exclusive management responsibility and control over the Company's or a Subsidiary's rights to pursue remedies for any default by the Development Manager under the Development Management Agreement, for any default by any HF Affiliate under any agreement between the Company or a Subsidiary and such HF Affiliate, any default by HF under this Agreement, any negotiations with the POA which involve any wrongdoing or alleged wrongdoing by HF or any HF Affiliate.

(c) Unless and until it is removed as Managing Member pursuant to Section 7.1.5, the HF Managing Member shall have the exclusive management, responsibility and control over, (i) any consents, approvals or decisions to be made by the landlord under the Lease, (ii) [reserved], (iii) [reserved], (iv) all matters pertaining to the entitlements affecting the Property (including, but not limited to, zoning issues, CFD formation, mapping and subdivision), including interactions and negotiations with governmental entities, (v) except as set forth in Section 7.1.1(b), all matters pertaining

to the Property Owners Association (“**POA**”) for the Corporate Park in which the Project is located (provided, however, HF Managing Member may not take any action in connection with the POA without Skechers Managing Member’s approval that will materially reduce or eliminate any of Skechers Parent’s rights as tenant under the Lease, or that will materially increase Tenant’s costs and expenses thereunder, other than the obligation to pay reasonable POA assessments), and (vi) subject to Section 7.1.1(e), all matters relating to the development (but not the sale) of the Project and other professionals, preparation of construction drawings, and all aspects of construction (subject to the rights of Skechers Parent as tenant under the Lease and the provisions of the Development Management Agreement). Notwithstanding the exclusive rights granted to HF Managing Member hereunder, the Skechers Managing Member shall have the right to approve any insurance company recovery, award or settlement, any condemnation award and any settlement of any lawsuit or threatened lawsuit with respect to the Property or the Project, which consent will not be unreasonably withheld. Further, subject to any provisions in the Lease, the Construction Loan documents and the Permanent Loan Documents, any insurance proceeds received by the Company or a Subsidiary as a result of damage or destruction to any improvements within the Project shall be used to reconstruct such improvements, to the extent legally permissible, and provided that the Lease continues in force and effect. HF Managing Member shall keep Skechers reasonably informed about negotiations involving the construction contract (including the selection of the general contractor) and shall promptly upon request provide Skechers with copies of drafts of the proposed construction contract during the course of its negotiation. HF Managing Member will consider any comments offered by Skechers with respect to the foregoing, but ultimately the decisions of HF Managing Member regarding the selection of the general contractor and the terms and conditions of the construction contract shall control, subject to any express provisions in this Agreement or the Development Management Agreement. Notwithstanding item (i) of this Section 7.1.1(c), nothing herein shall be interpreted as a waiver of, or prohibition on, the right of Skechers Parent, as tenant under the Lease, to contest the withholding of any requested landlord consent or approval under the Lease.

(d) To the extent that the management and control of the Company is within the scope of the exclusive authority of either the HF Managing Member or the Skechers Managing Member, such Managing Member may act on behalf of the Company or a Subsidiary (and may bind the Company or such Subsidiary) alone and without the consent, approval, ratification or signature of the other Managing Member. To that end, it is expressly agreed that the signature of the HF Managing Member alone on the Construction Loan Documents shall bind the Company.

(e) Any issues relating to the management and control of the Company which are not within the scope of the exclusive authority of either the HF Managing Member or the Skechers Managing Member shall be matters which require the joint consent, approval or ratification (and joint signature, as applicable) of both Managing Members, which consent shall not be withheld unreasonably or delayed; provided, however, that the Members acknowledge that the Skechers Managing Member may cause the Company or each Subsidiary to adopt such internal controls as are reasonably necessary, upon advice of Skechers Parent’s counsel, to comply with the Skechers Parent’s obligations under SEC Rule 404. The Members acknowledge, without limitation, that (i) a sale of the Project or the Property, (ii) an amendment of the Development Management Agreement, and (iii) modifications of either the Development Budget or the Project Schedule requiring Company’s or a Subsidiary’s consent under the Development Management Agreement shall require the mutual consent of the Managing Members. Additionally, the engagement of attorneys and accountants by the Company or a Subsidiary, other than with respect to the development of the Project, shall be mutually agreed to by the Managing Members. In connection with the foregoing, HF Managing Member acknowledges that Skechers Parent is a publicly traded company and Skechers may need to require that particular accountants be used by the Company or any Subsidiary. As such, HF Managing Member agrees to use KPMG or such other accountants as Skechers Parent may use as the Company’s or a Subsidiary’s accountants in accordance with Article 9. If there is a dispute regarding the reasonableness of the withholding of consent, approval

or ratification of any matter which requires the joint consent, approval or ratification of both Managing Members, unless otherwise provided herein, the matter shall be submitted to expedited arbitration in accordance with Article 15. Except as set forth in Section 15.3, the Determination of the arbitrator shall be limited to whether or not the Managing Member acted reasonably, and the other Managing Member shall not be entitled to seek or obtain any monetary damages as a result of the unreasonable withholding of consent, approval or ratification.

(f) In addition to the powers now or hereafter granted to a manager of a limited liability company under the Act or under any other provision of this Agreement, the Managing Members, to the extent of either their exclusive scope of authority or joint authority as the case may be, shall have full power and authority to do all things deemed necessary or desirable by them to conduct the business of the Company and the Subsidiaries, to exercise all powers set forth in Section 3.2 and to effect the purposes set forth in Section 3.1, including, without limitation:

(i) the making of any expenditures, the assumption or guarantee of, or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness (including the securing of same by mortgage, deed of trust or other lien or encumbrance on the Company Assets) and the incurring of any obligations of the Company;

(ii) the making of regulatory and other filings, or rendering of periodic or other reports to governmental or other agencies having jurisdiction over the business of the Company and/or the Company Assets;

(iii) the acquisition, disposition and leasing of the Project and other Company Assets;

(iv) the negotiation, execution, performance and administration of (including the exercise of any rights or remedies under) any contracts (including contracts with Affiliates of the Members);

(v) the opening and closing of Company bank accounts (which bank accounts shall be in the name of the Company but on which representatives of both Managing Members shall be signatories, subject to the limitations set forth in the Development Management Agreement with respect to bank accounts into which Construction Loan draws will be funded prior to Completion of the Project), the investment of Company funds in securities, certificates of deposit and other instruments, and the distribution of Available Cash;

(vi) the engagement and dismissal of agents, outside attorneys, accountants, engineers, appraisers, consultants, contractors and other professionals for the Company and the determination of their compensation and other terms of any such engagement or dismissal;

(vii) the control of any matters affecting the legal rights and obligations of the Company, including the conduct of litigation and the incurring of legal expenses and the settlement of claims and litigation;

(viii) obtaining and maintaining casualty, liability and other insurance on the Company Assets, including the Project and the Members; and

(ix) the execution, acknowledgment and delivery of any and all documents and instruments to effect any or all of the foregoing.

(g) Notwithstanding the rights of the HF Managing Member under Section 7.1.1(c)(i), the Landlord Improvements (as defined in the Lease) will be bid competitively, and upon request of the Skechers Managing Partner, all bids will be disclosed to it on an “open book” basis.

No Approval Required for Above Powers

7.1.3 . The applicable Managing Member (or the Managing Members, jointly, as the case may be) is authorized to execute, deliver and perform the above-mentioned documents and transactions on behalf of the Company or a Subsidiary without any further act, approval or vote of the Members. Notwithstanding the foregoing, if a Managing Member is authorized to act alone to the extent practical, it shall give at least five (5) Business Days prior notice (which shall be reduced to two (2) Business Days prior notice until Completion of the Project) to the other Managing Member of any actions it intends to take on behalf of the Company or a Subsidiary which might have a material impact on the business, Company Assets, a Subsidiary’s Assets or obligations of the Company or a Subsidiary. In any event, the Members will cooperate in all reasonable respects with the Managing Members to facilitate the exercise of the powers of management and control by the Managing Members.

7.1.4 No Obligation to Consider Tax Consequences to the Members. In exercising authority under this Agreement, the Managing Members may, but shall be under no obligation to, take into account the tax consequences to the Members of any action taken by the Managing Members, and neither the Company or a Subsidiary nor any Managing Member acting in good faith shall have any liability to either Member under any circumstances as a result of an income tax liability incurred by such Member as a result of an action (or inaction) by the Managing Members pursuant to their authority under this Agreement.

7.1.5 Removal of Managing Members. A Managing Member may be removed by the other Managing Member (or by the other Member, if there is only one Managing Member), as follows:

(a) If such Managing Member materially defaults under this Agreement (except for a default under Article 4 or Article 6, which are governed by provisions in those Articles), subject to notice from the other Managing Member and ten (10) Business Days to cure such default; provided, however, that in the case of any default which can be cured but not within such ten (10) Business Day period, such Managing Member fails to begin reasonable steps to cure such breach within such ten (10) Business Day Period, or does not thereafter diligently prosecute such cure to completion or in any event if such default is not cured within sixty (60) days following the date of notice thereof from the other Managing Member; or

(b) If such Managing Member (or any of its controlling Persons) is convicted of any criminal act involving the Company Assets, a Subsidiary’s Assets, or business of the Company or a Subsidiary, or is found by a court of competent jurisdiction to have breached its fiduciary duty under this Agreement, or to have committed fraud involving the Company Assets, a Subsidiary’s Assets, or business of the Company or a Subsidiary, or to have been grossly negligent in performing its duties under this Agreement; or

(c) If such Managing Member becomes Incapacitated or commits or suffers a Bankruptcy Action; or

(d) In the case of the Skechers Managing Member, if the Skechers Parent commits a material default under the Lease and such default is not cured within any applicable time period set forth therein; or

(e) In the case of the HF Managing Member, if the Development Manager commits a material default under the Development Management Agreement and such default is not cured within any applicable time period set forth therein; or

(f) In the case of either Managing Member, if the Company or a Subsidiary defaults under the Lease by reason of any act or omission of such Managing Member and such default is not cured within any applicable time period set forth therein; or

If a Managing Member is so removed, the other Managing Member shall serve as the sole Managing Member (and shall thereafter have the management authority and attendant management obligations of replaced Managing Member in addition to the management authority and attendant management obligations which it previously had). For clarification, if the HF Managing Member is removed, the Skechers Managing Member shall have the right to enforce the Company's rights under the Development Management Agreement, and if the Development Management Agreement is terminated, the Skechers Managing Member may enter into a new development management agreement on behalf of the Company and may engage a new Development Manager, subject to the provisions of Section 7.5. The removed Managing Member shall retain all of the rights and obligations hereunder as a Member, other than those which pertain to its management authority as a Managing Member, but such Managing Member shall remain liable to the Company and the other Member for any damages resulting from the acts (or omissions) which resulted in its removal.

Notwithstanding the foregoing, if the Managing Member whose removal is being sought gives notice of its objection to such removal within five (5) Business Days after receiving notice of any attempted removal, then the matter shall be submitted to expedited arbitration in accordance with Article 15. If a Determination is made in the arbitration proceeding that the grounds for removal have been satisfied, then prior to the actual removal of such Managing Member, such Managing Member shall have an additional ten (10) Business Days to effectuate a cure of the default (if the default is of a nature that it can be cured).

Notwithstanding anything herein to the contrary, if the Lender declares a default under the Construction Loan Documents, other than due to the acts or omissions of Skechers or Skechers Parent, and refuses to continue to fund the Construction Loan, unless the HF Managing Member provides alternative funding at no additional cost or expense to Skechers or the Company within thirty (30) days of the expiration of the applicable notice and cure period set forth in the Construction Loan Documents, the Skechers Managing Member (and not the HF Managing Member) shall have exclusive management rights with respect to the development of the Project, to the same extent that the HF Managing Member previously had such exclusive management rights pursuant to Section 7.1.1(c)(vi). In addition, if the Lender declares a default under the Construction Loan Documents as a result of any act or omission other than one caused by Skechers or Skechers Parent, and the Skechers Managing Member is reasonably dissatisfied with the progress of any attempt to cure such default by the HF Managing Member, then the Skechers Managing Member, in its sole discretion, may seek to effectuate the cure itself, without waiving any rights or remedies which it might have against HF or the HF Managing Member as a result of such default. Any Lender may rely on the foregoing as the Members' authorization to accept a cure by Skechers Managing Member on behalf of the Company.

Section 7.2 Certificate of Formation. The Managing Members shall file any required amendments to and restatements of the Certificate, and shall do all the things to maintain the Company and each Subsidiary as a limited liability company under the laws of the State of Delaware, the State of California and each other jurisdiction in which the Company or either Subsidiary may elect to do business or own property. The Managing Members shall use all reasonable efforts to cause to be filed such other certificates or documents as may be reasonable and necessary or appropriate for the formation, continuation, qualification and operation of a limited liability company in the State of Delaware, the State of California, and any other jurisdiction in which the Company or a Subsidiary may elect to do business or own property.

Section 7.3 Compensation of Managing Members.

7.3.1 No Compensation. The Managing Members shall not be compensated for rendering services as Managing Members of the Company. The foregoing is not intended to prohibit the payment to the Members, or their Affiliates, of fees under any agreement entered into by the Company or a Subsidiary and any such Member or its Affiliate pursuant to this Agreement (including the Development Management Agreement)._

7.3.2 Reimbursement for Expenses. The Company shall be responsible for and shall pay all expenses relating to the Company's ownership of the Company Asset or the ownership of a Subsidiary's Assets, and the operation of, or for the benefit of, the Company, and the Managing Members shall be reimbursed on a monthly basis, for all reasonable and customary out-of-pocket expenses actually incurred by the Managing Members on behalf of the Company or any Subsidiary directly relating to the ownership of the Company Assets or the ownership of a Subsidiary's Assets and the operation of, or for the benefit of, the Company or any Subsidiary; provided, however, that the Company shall not reimburse the legal fees and costs of a Member in any arbitration or court proceeding that is solely between the Company or any Subsidiary, on one hand, and either Member or its Affiliates, on the other hand, or between Members and their Affiliates, until the conclusion of such arbitration or court proceeding (at which time, legal fees and costs shall be awarded to the prevailing party). Further, it is understood that neither Member nor its Affiliates shall be entitled to any property management fees for management of the Project (but the foregoing does not prohibit the payment of a fee to the Development Manger under the Development Management Agreement).

Section 7.4 Devotion of Time and Outside Activities of the Members

(a) Nothing herein contained shall prevent or prohibit the Members or any Affiliates of the Members from entering into, engaging in or conducting any other activity or performing for a fee any service, including engaging in any business dealing with real property of any type or location; owning, managing, leasing or disposing of any real property of any type or location; acting as a director, officer or employee of any corporation, as a trustee of any trust, as a general partner of any partnership, or as an administrative official of any other business entity; or receiving compensation for services to, or participating in profits derived from, the investments of any such business, property, corporation, trust, partnership or other entity, regardless of whether such activities are competitive with the Company or any Subsidiary (collectively, the "Outside Activities"), and nothing herein shall require any Member or any Affiliates thereof to offer any interest in such Outside Activities to the Company or any Subsidiary or to any other Member.

Section 7.5 Contracts with Affiliates. Neither Managing Member nor any of its Affiliates shall (a) sell, transfer or convey any property to, or purchase any property from, the Company or any Subsidiary, directly or indirectly, or (b) enter into any agreement (or amendment thereto) for the provision of services to the Company or any Subsidiary, or pursuant to other transactions or agreements unless the terms thereof are fair and reasonable, such terms and are no less favorable to the Company or any Subsidiary than those that would be obtained from an unaffiliated third party, and such Managing Member provides the other Member with at least ten (10) Business Days prior written notice of its intent to enter into such arrangement, together with the material terms thereof, and such Managing Member does not receive a written notice of objection from the other Member regarding the reasonableness of such arrangement. Notwithstanding the foregoing, the Members acknowledge that Company has entered into the Development Management Agreement with an Affiliate of HF and HFPV. Further, except as set forth in Section 6.1, no Affiliate of a Member may become either the Construction Lender or the Permanent Lender unless both Managing Members agree (and if there is a dispute in this regard, the matter shall not be subject to the expedited arbitration provisions in Article 15)._

Section 7.6 Indemnification.

7.6.1 General. The Company shall indemnify, to the full extent allowed by the Act, each Indemnitee from and against any and all losses, claims, damages, liabilities, joint or several, expenses (including reasonable legal fees and expenses), judgments, fines, settlements, and other amounts (collectively, “**Loss Items**”) arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative brought by an unaffiliated third party, that relate to the operations of the Company or any Subsidiary as set forth in this Agreement in which such Indemnitee may be involved, or is threatened to be involved, as a party or otherwise (but excluding indemnification for any Loan guarantees, which are separately addressed in Section 6.3), except to the extent it is established in a final court proceeding that the Loss Item is proximately caused by: (a) the act or omission of such Indemnitee that was material to the matter giving rise to the proceeding and either was committed in bad faith or was the result of active and deliberate dishonesty, fraud, willful misconduct or gross negligence or such Indemnitee’s uncured breach of this Agreement, the Development Management Agreement, or the Lease; (b) such Indemnitee actually receiving an improper personal benefit in money, property or services; or (c) in the case of any criminal proceeding, such Indemnitee having reasonable cause to believe that the act or omission was unlawful. The termination of any proceeding by judgment, order or settlement does not create a presumption that such Indemnitee did not meet the requisite standard of conduct set forth in this Section 7.6.1. The termination of any proceeding by conviction or upon a plea of nolo contendere or its equivalent, or an entry of an order of probation prior to judgment, creates a rebuttable presumption that such Indemnitee acted in a manner contrary to that specified in this Section 7.6.1. Any indemnification pursuant to this Section 7.6 shall be made only out of the Company Assets. Notwithstanding anything in this Agreement to the contrary, no Indemnitee who is an individual shall be denied indemnification or shall have any personal liability to the Company or its Members or any Subsidiary with respect to any Loss Item, except to the extent such Loss Item is proximately caused by such Indemnitee’s actual active and deliberate dishonesty, or fraud. _

7.6.2 In Advance of Final Disposition. Except as provided in Section 7.3.2, reasonable expenses incurred by an Indemnitee who is a party to a proceeding may be paid or reimbursed by the Company in advance of the final disposition of the proceeding upon receipt by the Company of (a) a written affirmation by the Indemnitee of the Indemnitee’s good faith belief that the standard of conduct necessary for indemnification by the Company as authorized in this Section 7.6 has been met and (b) a written undertaking by or on behalf of the Indemnitee to repay the amount if it shall ultimately be determined that the standard of conduct has not been met.

7.6.3 Other Than by This Section. The indemnification provided by this Section 7.6 shall be in addition to any other rights to which an Indemnitee may be entitled under any agreement with the Company or any Subsidiary, or under any other provision of this Agreement.

7.6.4 Liability of the Managing Members. Notwithstanding anything to the contrary set forth in this Agreement, the Managing Members shall not be liable to the Company or any Subsidiary or any Members for losses sustained or liabilities incurred as a result of errors in judgment, or as a result of any act or omission by such Managing Member, except for losses sustained or liabilities incurred in whole or in part by such Managing Member’s bad faith, fraud, willful misconduct, gross negligence, acting beyond the scope of such Managing Members’ authority or commission of any Event of Default under this Agreement (subject to limitations on remedies set forth elsewhere in this Agreement). Neither Managing Member shall be liable to the Company or any Subsidiary, or to any Member for any losses sustained or liabilities incurred as a result of the acts or omissions of the other Managing Member.

Section 7.7 Other Matters Concerning the Managing Members.

7.7.1 Reliance on Documents. The Managing Members may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, or other paper or document reasonably believed by them to be genuine and to have been signed or presented by the proper party or parties.

Reliance on Consultants and Advisers

7.7.3 . The Managing Members may consult with legal counsel, accountants, appraisers, management consultants, investment bankers and other consultants and advisers selected by them, and any act taken or omitted to be taken in reliance upon and in accordance with the opinion of such Persons as to matters which the Managing Members reasonably believe to be within such Person's professional or expert competence shall be *prima facie* evidence that such act was done or omitted in good faith.

7.7.4 Action Through Officers and Attorneys In Fact. The Managing Members shall have the right, in respect of any of their powers or obligations hereunder, to act through any of their duly authorized officers (or partners or managers, as applicable) and their duly appointed attorneys-in-fact. Each such Person, to the extent provided by the Managing Members in the power of attorney or other authorizing instrument, shall have full power and authority to do and perform all and every act and duty which is permitted or required to be done by the Managing Members hereunder.

Section 7.8 Reliance by Third Parties. Any Person dealing with the Company shall be entitled to assume that the Managing Members have full power and authority to encumber, sell or otherwise use in any manner any and all Company Assets and to enter into any contracts on behalf of the Company, and such Person shall be entitled to deal with the Managing Members, or either of them, as if they were the Company's sole party in interest, both legally and beneficially. In no event shall any Person dealing with the Managing Members or their representatives be obligated to ascertain that the terms of this Agreement have been complied with or to inquire into the necessity or expedience of any act or action of the Managing Members or their representatives. Each and every certificate, document or other instrument executed on behalf of the Company by the Managing Members or their representatives shall be conclusive evidence in favor of any and every Person relying thereon or claiming thereunder that (a) at the time of the execution and delivery of such certificate, document or instrument, this Agreement was in full force and effect, (b) the Person executing and delivering such certificate, document or instrument was duly authorized and empowered to do so for and on behalf of the Company and (c) such certificate, document or instrument was duly executed and delivered in accordance with the terms and provisions of this Agreement and is binding upon the Company. Nothing herein is intended to afford either Managing Member greater power or authority than is otherwise granted under this Agreement, or to exculpate either Managing Member from any liability for acting beyond the scope of such Managing Member's authority as set forth herein.

Section 7.9 Operating Budgets. The initial Operating Budget for 2019 is attached as **Exhibit "C"** which has been approved by both Managing Members. No later than the first (1st) day of the last quarter of each Company Year, the Skechers Managing Member shall submit a proposed Operating Budget (which shall include capital expenditures which are the landlord's obligation under the Lease, and a business plan) for the next ensuing Company Year for approval by the HF Managing Member. Proposed amendments to any Approved Operating Budget may be submitted by the Skechers Managing Member to the HF Managing Member at any time. Such proposed Operating Budget (or any proposed amendment thereto) shall not be deemed to be effective until such time as it has been approved by the HF Managing Member. The HF Managing Member shall respond in writing to each such proposed Operating Budget (or any proposed amendment thereto) within thirty (30) days after receipt thereof. In such response, the HF Managing Member shall specify in detail its disapproval of any item or items therein or its disapproval of the whole, and any proposed modifications requested by the HF Managing Member or recommended changes therein. Within fifteen (15) days after receipt by Skechers of the HF Managing Member's disapproval of any proposed Operating Budget (or any proposed amendment

thereto), the Skechers Managing Member may re-submit to the HF Managing Member a revised Operating Budget (or amendment) for its approval. The HF Managing Member shall not unreasonably withhold or delay approval of any Operating Budget or amendment (with the issue of reasonableness being determined by expedited arbitration under Article 15). In the event that any Company Year shall commence without an Operating Budget approved by both the Skechers Managing Member and the HF Managing Member pursuant to the terms of this Section, the Managing Members shall be entitled to make expenditures for items specified in the Operating Budget for the most recent Company Year which has been approved by both Managing Members, and for the actual amount of the utility cost, property taxes, insurance premiums or special assessments incurred by the Company or any Subsidiary in the current Company Year and any other non-discretionary items (including Debt service and stated increases in Company obligations or Subsidiary obligations under contracts for the year), and for any expenditures on the Project which, in the Managing Members' reasonable good faith judgment, is necessary to prevent imminent damage to the Project and/or injury to Persons. The Operating Budget shall not include the budget for development of the Project (although the Members acknowledge that a development budget has been approved and a copy is attached as an exhibit to the Development Management Agreement).

ARTICLE 8 BUY-SELL PROVISIONS

Section 8.1 At any time commencing on a date which is one (1) year after the "Substantial Completion" (as defined in the Lease) of the Project, or the date that a Notice of Completion is recorded, whichever occurs earlier, either HF and HFPV together, or Skechers (hereinafter referred to as "**Invoking Member**") may deliver to the other (such other Member hereinafter referred to as the "**Offeree Member**"), written notice that the Invoking Member is invoking the provisions of this Section 8.1 (the "**Buy-Sell Notice**").

Section 8.2 The Buy-Sell Notice shall set forth the gross price (the "**Stated Amount**") at which the Invoking Member would be willing to purchase all of the Company Assets from the Company.

Section 8.3 The Buy-Sell Notice shall constitute an offer by the Invoking Member to purchase the entire Company Interest of the Offeree Member for a price equal to the amount of cash which would be distributable to such Offeree Member pursuant to Section 13.2.1 if the Project and all other Company Assets were sold to a third party pursuant to a bona-fide, arm's length transaction at the Stated Amount and had the Company then (a) paid in full all of its Debt, including the repayment of the Loans and any loans payable to the Members (and made all apportionments customarily made in the closing of real estate transactions in the jurisdictions in which the Project is located, and all other customary closing costs, including, but not limited to title insurance premiums, survey costs, a reasonable and customary real estate commission and transfer taxes normally payable by a seller of real estate), (b) not established any Reserves and (c) distributed the net proceeds of the sale, and all other cash of the Company to the Members in accordance with the provisions of Section 13.2.1. Such calculations shall be made as of the date of closing set forth in Section 8.8. Provided, however, that the Stated Amount may not be less than an amount which would result in the distribution to the Selling Member of at least the Selling Member's Unrecovered Contribution (or, if the Selling Member is Skechers, the Unrecovered Contribution Difference (if greater)), and the repayment of any Loans owed by the Company to the Selling Member as of the date of closing. The Buy-Sell Notice shall also constitute an offer by the Invoking Member to sell its entire Company Interest to the Offeree Member for a price equal to the amount of cash which would be distributable to the Invoking Member in the manner described above if it were the Selling Member.

Section 8.4 Upon receipt of the Buy-Sell Notice, the Offeree Member may, at its option, either elect to purchase the entire Company Interest of the Invoking Member at the price described above, or to sell its entire Company Interest to the Invoking Member at the price described above.

Section 8.5 The Offeree Member shall give notice of its election under Section 8.4 to the Invoking Member within sixty (60) days after such Offeree Member's receipt of the Buy-Sell Notice; provided, however, that in the event the Offeree Member shall fail to give the Invoking Member notice of its election within such sixty (60) day period, such Offeree Member shall be conclusively deemed to have elected to sell its entire Company Interest to the Invoking Member.

Section 8.6 The Member, which under this Article 8 is to purchase the Company Interest of the other Member (the "**Purchasing Member**") shall, within ten (10) days after the determination is made as to who the Purchasing Member will be (the "**Deposit Date**"), deliver to an escrow holder which is a national title insurance company selected by the Purchasing Member cash in the amount of five percent (5%) of the purchase price (the "**Buy-Sell Deposit**") which Buy-Sell Deposit will be applied against the purchase price for the Company Interest of the Selling Member whose Company Interest is being purchased (the "**Selling Member**").

Section 8.7 Notwithstanding anything to the contrary contained in this Agreement, in no event may a Default Member, or a Member that is Incapacitated, or a Member that is subject to a Bankruptcy Event, or a Member that is a Breaching Member, be an Invoking Member under or otherwise initiate the procedures of this Article 8, and if a Member suffers any of the foregoing after it has initiated the procedures under this Article 8 as the Invoking Member, then at the option of the Offeree Member, the buy-sell process may be immediately terminated (provided that the closing of the purchase and sale of the Company Interest has not consummated).

Section 8.8 The closing of a sale and purchase pursuant to this Article 8 shall be consummated through escrow on a date which is six (6) months after the Deposit Date (or sooner at the election of the Purchasing Member), or such other date and manner as the Members shall agree upon. At such closing, the Purchasing Member shall pay the entire purchase price for the Company Interest of the Selling Member, in cash in immediately available funds, and the Selling Member shall execute all documents that may be necessary or desirable, in the reasonable opinion of counsel for the Purchasing Member (including customary representations and warranties regarding the Company Interest of the Selling Member, but not regarding the Project, the other Company Assets or the Company), to effect the sale of the Company Interest of the Selling Member to the Purchasing Member free and clear of all liens and encumbrances. In the event the Selling Member or the Purchasing Member shall fail or refuse to execute any instruments required to consummate the closing, the other Member is hereby granted an irrevocable power of attorney, which shall be binding on the Member refusing to execute such documents as to all third Persons, to execute and deliver on behalf of the Member refusing to execute such documents all such required documents. The aforesaid power, being coupled with an interest, is irrevocable by death, dissolution or otherwise.

Section 8.9 In the event the Selling Member then has any outstanding Debt to the Company or any Subsidiary, all proceeds of the purchase price due the Selling Member shall be paid to the Company until all such Debt shall have been paid and discharged in full. In the event that such proceeds are not sufficient to discharge such Debt, the Selling Member shall repay all such unpaid Debt at the closing. In the event that any loans are then outstanding from the Company or any Subsidiary to the Selling Member, then all of such loans shall concurrently be repaid by the Company at the closing. In the event the Selling Member or any Affiliate of the Selling Member shall have guaranteed any Loan, then either (a) the Loan which is the subject of such guaranty shall be paid in full by the Company at the time of closing or (b) the Selling Member and any such Affiliate of the Selling Member shall be unconditionally released by the obligee for any liability on account thereof. If the Selling Member is a Breaching Member, the Company shall reserve any rights to pursue the Selling Member for damages after the closing, to the extent otherwise allowable under this Agreement.

Section 8.10 The Selling Member and the Purchasing Member shall each pay their own expenses in connection with such purchase and sale of a Company Interest.

Section 8.11 From and after the giving of a Buy-Sell Notice, and until either the consummation of the sale of the Company Interest in accordance with this Article 8, or termination of the buy-sell process as provided herein, neither Member shall exercise any transfer rights under Article 11.

Section 8.12 In the event the Purchasing Member defaults in its obligation to purchase the Company Interest of the Selling Member, then Selling Member as its sole and exclusive remedy shall be entitled to retain the Buy-Sell Deposit as full liquidated damages for such default of the Purchasing Member, in which event the buy-sell transaction shall be terminated and the Purchasing Member shall have no further rights to initiate the buy-sell provisions (as an Invoking Member) under this Article 8. The Selling Member, at its election and in lieu of the remedy set forth above, may elect within sixty (60) days of such default to dissolve and liquidate the Company and any Subsidiaries. The Members hereby acknowledge and agree that it is impossible to more precisely estimate the damages to be suffered by the Selling Member upon the Purchasing Member's default, and the Members expressly acknowledge and agree that the Buy-Sell Deposit which may be retained by the Selling Member is a reasonable and fair estimate of such damages and is intended not as a penalty, but as full liquidated damages for such default of the Purchasing Member.

Section 8.13 In the event that the Selling Member defaults in its obligation to sell its Company Interest to the Purchasing Member, the Purchasing Member shall be entitled to pursue any and all remedies available at law or in equity, including specific performance.

ARTICLE 9 BOOKS, RECORDS, ACCOUNTING AND REPORTS

Section 9.1 Records and Accounting. The HF Managing Member shall keep appropriate books and records with respect to the Company's business, all of which shall be and remain the property of the Company. Any records maintained by or on behalf of the Company or a Subsidiary in the regular course of its business may be kept on, or be in the form of, magnetic tape, photographs, micrographics or any other information storage device; provided, that the records so maintained are convertible into clearly legible written form within a reasonable period of time. The books of the Company and each Subsidiary shall be maintained for financial purposes on an accrual basis in accordance with generally accepted accounting principles (except that Capital Accounts shall be maintained in accordance with Exhibit "A") and for tax reporting purposes on the accrual basis. The Members may, upon reasonable notice to the HF Managing Member and during normal business hours and at its own expense, examine the books and records of the Company and each Subsidiary, which will be maintained at the principal office of the HF Managing Member.

Section 9.2 Fiscal Year. The fiscal year of the Company and each Subsidiary shall be the calendar year, unless the Managing Members decide otherwise.

Section 9.3 Reports.

9.3.1 Annual Reports. Within ten (10) days after the end of each Company Year, the HF Managing Member shall prepare or cause to be prepared and delivered to the Members an annual report, as of the close of the Company Year, containing financial statements of the Company and each Subsidiary for such Company Year, presented in accordance with generally accepted accounting principles.

9.3.2 Quarterly Reports. As soon as practicable, but not later than ten (10) days after the end of each calendar quarter, the HF Managing Member shall prepare or cause to be prepared and delivered to the Members a report as of the last day of the calendar quarter (except the last calendar quarter of each year), containing unaudited financial statements of the Company and each Subsidiary, and

such other information as may be required by applicable law or regulation, or as the HF Managing Member reasonably determines to be appropriate.

9.3.3 Other Reports. Each Managing Member shall promptly give notice to the other Managing Member of the occurrence of any of the following: receipt by such Managing Member of actual knowledge of any material (that is, seeking damages in excess of \$250,000 or seeking injunctive relief of any nature) threatened or pending litigation against the Company, any Subsidiary, the Property or the Project; the occurrence of any felony indictment or conviction of any Person in senior management at such Managing Member; receipt by such Managing Member of any offer to purchase all or any part of the Property or the project; and receipt of written notice from any governmental authority which alleges any material adverse claim against the Company, any Subsidiary, the Property or the Project.

Section 9.4 Special Provisions Re Books and Records, Accounting and Reports. Notwithstanding the provisions of this Article 9, for so long as Skechers Parent is a publicly traded company and the operations of the Company are required to be consolidated with the operations of Skechers parent for reporting purposes, the following provisions shall apply:

(b) The Company and each Subsidiary will use KMPG (or another certified public accounting company designated by Skechers) as its auditor and preparer of its tax returns, as long as its fees for such work are competitive in the marketplace (if they exceed competitive fees, any excess shall be paid by Skechers);

(c) KMPG will undertake annual audits of the Company and each Subsidiary, at Company expense;

(d) All of the quarterly and annual reports and all Company tax returns must be in forms reasonably acceptable to the Skechers Managing Member as a result of consultation with KPMG and its legal counsel (it is expected that both GAAP and cash basis records will be required for the determination of distributions to Members), with appropriate and reasonable certifications by the HF Managing Member;

(e) Reasonable internal controls may be required to satisfy the obligations of Skechers Parent under the Federal Act and specifically SEC Rule 404; provided that if the cost of implementing such internal controls is more than nominal, it shall be borne by Skechers;

(f) The Skechers Managing Member shall have unrestricted right to speak with (and to give directions, to the extent that it is the sole Managing Member or otherwise in connection with any matter where Skechers Managing Member has the authority to take such action without the consent of the HF Managing Member) to the Company's accountants, attorneys and other professional advisors, and those of any Subsidiaries and shall have the right to receive copies of documents in their possession which relate to the Company, any Subsidiary or its operations (and HF shall not be entitled to invoke attorney-client privilege as a basis to deny Skechers Managing Member access to any such Persons or documents); and

(g) Skechers Managing Member shall upon the advice of its legal counsel, have the right to disclose in Skechers Parent's public reports and to Skechers Parent board of directors any information regarding the Company, any Subsidiary, the Property, the Project, the Lease, the Development Management Agreement, the Development Manager or the HF Managing Member notwithstanding the confidentiality provisions of this Agreement.

ARTICLE 10
TAX MATTERS

Section 10.1 Preparation of Tax Returns. The Tax Matters Partner shall arrange for the preparation and timely filing of all returns of Company and Subsidiary income, gains, deductions, losses and other items required of the Company for federal and state income tax purposes and shall use all reasonable efforts to furnish, within ninety (90) days after the close of each taxable year, the tax information reasonably required by the Members for federal and state income tax reporting purposes. If the Tax Matters Partner fails to file the Company's tax returns on or before any applicable deadlines (including extensions), the other Managing Member may prepare and file the Company's tax returns as it determines.

Section 10.2 Tax Matters Partner.

10.2.1 General. The HF Managing Member shall be the "Tax Matters Partner" of the Company for federal income tax purposes, and shall be referred to herein as the "Tax Matters Partner," but such designation shall not be construed or used as evidence to support any claim that the Company is a partnership, rather than a limited liability company. Upon the HF Managing Member becoming a Breaching Member or becoming Incapacitated or suffering a Bankruptcy Action, the Skechers Managing Member shall automatically become the Tax Matters Partner. Pursuant to Section 6223(c) of the Code, upon receipt of notice from the IRS of the beginning of an administrative proceeding with respect to the Company, or any Subsidiary, the Tax Matters Partner shall furnish the IRS with the name, address and capital and profits interest of each of the Members. The Tax Matters Partner shall keep the Members reasonably informed of any action that it takes in such capacity which has a material impact on the other Members or the Company or any Subsidiary.

10.2.2 Powers. The Tax Matters Partner is authorized, but not required:

(a) to enter into any settlement with the IRS with respect to any administrative or judicial proceedings for the adjustment of Company or Subsidiary items required to be taken into account by a Member for income tax purposes (such administrative proceedings being referred to as a "tax audit" and such judicial proceedings being referred to as "judicial review"), and in the settlement agreement the Tax Matters Partner may expressly state that such agreement shall bind all Members, except that such settlement agreement shall not bind any Member (i) who (within the time prescribed pursuant to the Code and Regulations) files a statement with the IRS providing that the Tax Matters Partner shall not have the authority to enter into a settlement agreement on behalf of such Member or (ii) who is a "notice partner" (as defined in Section 6231 of the Code) or a member of a "notice partner" (as defined in Section 6231 of the Code), and, to the extent provided by law, the Tax Matters Partner shall cause any Member to be designated a notice partner;

(b) in the event that a notice of a final administrative adjustment at the Company or Subsidiary level of any item required to be taken into account by a Member for tax purposes (a "final adjustment") is mailed or otherwise given to the Tax Matters Partner, to seek judicial review of such final adjustment, including the filing of a petition for readjustment with the Tax Court, or the filing of a complaint for refund with the District Court of the United States for the district in which the Company's principal place of business is located or the United States Court of Federal Claims;

(c) to intervene in any action brought by any other Member for judicial review of a final adjustment;

(d) to file a request for an administrative adjustment with the IRS at any time and, if any part of such request is not allowed by the IRS, to file an appropriate pleading (petition, complaint or other document) for judicial review with respect to such request;

(e) to enter into an agreement with the IRS to extend the period for assessing any tax which is attributable to any item required to be taken into account by a Member for tax purposes, or an item affected by such item;

(f) to take any other action on behalf of the Members, a Subsidiary or the Company in connection with any tax audit or judicial review proceeding to the extent permitted by applicable law or regulations; and

(g) Subject to any restrictions contained elsewhere in this Agreement, to engage attorneys, accountants and other professionals to advise it and to file any required income tax returns and other documents associated with its rights and authority as the Tax Matters Partner.

(h) Notwithstanding the foregoing, the Tax Matters Partner shall not take any action under Section 10.2.2(b), (d), (e) or (f) unless it has given the other Member at least ten (10) Business Days prior notice of its intent to take such action and the other Member has not given notice of its objection within five (5) Business Days after receipt of such notice. If notice of objection is timely given and the parties cannot otherwise resolve the dispute, either Member may submit the matter to expedited arbitration under Article 15.

The taking of any action and the incurring of any expense by the Tax Matters Partner in connection with any such proceeding, except to the extent required by law, is a matter in the reasonable discretion of the Tax Matters Partner, and the provisions relating to indemnification of the HF Managing Member set forth in Section 7.6 of this Agreement shall be fully applicable to the Tax Matters Partner in its capacity as such.

10.2.3 Reimbursement. The Tax Matters Partner shall receive no compensation for its services. All reasonable third-party costs and expenses incurred by the Tax Matters Partner in performing its duties as such (including reasonable legal and accounting fees) shall be borne by the Company. The costs of any professionals engaged by the Tax Matters Partner pursuant to Section 10.2.2(g) shall be paid or reimbursed by the Company.

10.2.4 Partner Representative. The Members shall take all reasonable actions to avoid the application to the Company of the provisions of Section 6221 through 6241 of the Code, as amended by the Bipartisan Budget Act of 2015, including filing all necessary elections to avoid the application of such provisions. If, however, such provisions do apply to the Company, the Tax Matters Partner shall act as the “Partnership Representative” for purposes of Sections 6221 through 6241 of the Code, as so amended.

Section 10.3 Organizational Expenses. The Company shall elect to deduct expenses, if any, incurred by it in organizing the Company, or its Subsidiaries, either immediately or ratably over a one hundred eighty (180) month period (or such other period) as permitted by and provided for in Section 709 of the Code.

Section 10.4 Withholding. The Members hereby authorize the Company to withhold from or pay on behalf of or with respect to the Members any amount of federal, state, local, or foreign taxes that the Tax Matters Partner reasonably determines that the Company is required to withhold or pay with respect to any amount distributable or allocable to the Members pursuant to this Agreement, including

any taxes required to be withheld or paid by the Company pursuant to Section 1441, 1442, 1445, or 1446 of the Code. The Tax Matters Partner shall give prompt notice to the Members with respect to which withholding is effected in accordance with this Section 10.4 and shall provide each such Member with a written explanation of the basis for their determination so to withhold or pay. Any amount paid on behalf of or with respect to a Member shall constitute a loan by the Company to such Member which loan shall be repaid by such Member within fifteen (15) days after notice from the Tax Matters Partner that such payment must be made unless (a) the Company withholds such payment from a distribution which would otherwise be made to such Member in accordance with Section 5.2 or Section 13.2 or (b) the Tax Matters Partner determines, in its sole and absolute discretion, that such payment may be satisfied out of the Available Cash of the Company which would, but for such payment, be distributed to such Member. Any amounts withheld pursuant to the foregoing clauses (a) or (b) shall be treated as having been distributed to such Member and shall be promptly paid, solely out of funds of the Company, by the Tax Matters Partner to the appropriate taxing authority. Each Member hereby unconditionally and irrevocably grants to the Company a security interest in such Member's Company Interest to secure the Member's obligation to pay to the Company any amounts required to be paid pursuant to this Section 10.4. In the event that a Member fails to pay any amounts owed to the Company pursuant to this Section 10.4 when due, the Tax Matters Partner may, in its sole and absolute discretion, elect to make the payment to the Company on behalf of such defaulting Member, and in such event shall be deemed to have loaned such amount to such defaulting Member and shall succeed to all rights and remedies of the Company as against such defaulting Member (including, without limitation, the right to receive distributions which would otherwise be made to the Member until such loan, with interest, has been paid in full). Any amounts payable by a Member hereunder shall bear interest at a per annum rate of interest equal to the Prime Rate, plus five percent (5%) (but not higher than the maximum lawful rate) from the date such amount is due (*i.e.*, fifteen (15) days after demand) until such amount is paid in full. The Members shall take such actions as the Company or the Tax Matters Partner shall request in order to perfect or enforce the security interest created hereunder.

Section 10.5 Tax Elections. Except as otherwise provided herein, the Tax Matters Partner shall, in its reasonable discretion, determine whether to make any available election pursuant to the Code; provided, however, that the Tax Matters Partner shall make the election under Section 754 of the Code in accordance with applicable Regulations thereunder and shall do so at the request of either Member who transfers its Company Interest. The Tax Matters Partner shall have the right, after the first taxable Company Year, to seek to revoke any election (other than the election under Section 754 of the Code, which revocation requires the consent of both Members) upon the HF Tax Matters Partner's determination in its reasonable discretion that such revocation is in the best interests of the Company.

ARTICLE 11 TRANSFERS AND WITHDRAWALS

Section 11.1 Transfer.

11.1.1 Definition. The term "transfer" (including the term "transferred"), when used in this Article 11 with respect to a Company Interest, shall be deemed to refer to a transaction by which a Member transfers its Company Interest, or any part thereof, to another Person and includes a sale, assignment, gift, pledge, encumbrance, hypothecation, mortgage, exchange or any other disposition by law or otherwise of the Company Interest, any part thereof.

11.1.2 Requirements. No Company Interest shall be transferred, in whole or in part, except in accordance with the terms and conditions set forth in this Article 11. Any transfer or purported transfer of a Company Interest not made in accordance with this Article 11 shall be null and void.

11.1.3 Transfer of Member's Company Interest. The HF Member may not transfer any portion of its Company Interest without Skechers' consent until the Completion of the Project pursuant to the Plans and Specifications. Neither the HF Member nor Skechers may transfer its Company Interest (other than any transfer to an Affiliate which shall require the consent of the other Member, which consent may not be unreasonably withheld or delayed), in whole or in part, to any Person, without first offering such Company Interest (or part thereof) to the other Member on the same terms and conditions. If a Member desires to transfer its Company Interest, or any part thereof (whether or not it has received an offer to purchase same), it shall send notice to the HF Member (in the case of a transfer by Skechers) or Skechers (in the case of a transfer by the HF Member) stating the extent of the Company Interest which it intends to transfer, the terms and conditions of the proposed transfer, including the purchase price therefor, and the identity of the proposed transferee. Upon request of the receiving Member, additional information regarding the proposed transfer and financial and other information concerning the transferee will be promptly provided. Within twenty (20) days after receipt of the notice of intended transfer, the receiving Member may, by notice to the Member proposing to transfer, elect to purchase the entire Company Interest proposed to be transferred at the same purchase price and on the same terms and conditions as set forth in the notice, but the closing shall not occur sooner than six (6) months after the date of such notice to the Member proposing to transfer. If the Member receiving the notice of proposed transfer fails to elect to purchase the Company Interest as set forth above within such twenty (20) day time period, the Member proposing the transfer may proceed to transfer the Company Interest, but only on the terms and conditions and to the proposed transferee set forth in the notice, and provided that such proposed transfer is consummated within sixty (60) days thereafter (if there is any change in the foregoing or the transfer is not consummated within such sixty (60) day period, then a new notice of intent to transfer is required). If the transfer is consummated, the transferring Member shall promptly give notice to the other Member. The transferee shall be an Assignee and shall not become a Member of the Company until the provisions of Article 12 have been complied with. Any transfer or purported transfer of a Member's Company Interest not made in accordance with this Article 11 shall be null and void.

Section 11.2 Prohibited Transfers. Notwithstanding anything herein to the contrary, a Member may deny any proposed transfer of the other Member's Company Interest to any Person which is owned and controlled directly or indirectly, by any Person described below (and the Member who denies such transfer need not elect to purchase the Company Interest of such other Member pursuant to Section 11.1.3 to prevent such transfer):

- (a) A business competitor of the non-transferring Member or any Affiliate thereof; or
- (b) A Person which does not have the financial strength to fulfill its obligations under this Agreement; or
- (c) A Person who is an Embargoed Person or who has been convicted of a felony or any violations of State Acts, the Federal Act, or any other securities laws;
- (d) A Person who has been engaged in any pending or previous litigation or arbitration in opposition to the non-transferring Member or any Affiliate thereof; or
- (e) A Person who has a reputation in the real estate community as being "litigious" as a result of the filing of multiple "strike suits". The Member seeking to prohibit a transfer on the grounds set forth in this clause (e) shall have the burden of proof, and if there is a dispute regarding this matter, it shall be submitted to expedited arbitration under Article 15.

11.2.1 Timing of Transfers. Transfers pursuant to this Article 11 may only be made on the first day of a calendar month, unless the Managing Members otherwise agree.

11.2.2 Allocations and Distributions When Transfer Occurs. If any Company Interest is transferred during any quarterly segment of the Company's fiscal year, income and loss of the Company and all other items attributable to such interest for such fiscal year shall be divided and allocated between the transferor Member and the transferee Member by taking into account their varying interests during the fiscal year in accordance with Section 706(d) of the Code, using the interim closing of the books method. Solely for purposes of making such allocations, each of such items for the calendar month in which the transfer or redemption occurs shall be allocated to the Person who is a Member as of midnight on the last day of said month. All distributions of Available Cash with respect to which the Company Record Date is before the date of such transfer or redemption shall be made to the transferor Member, and all distributions of Available Cash thereafter shall be made to the transferee Member.

11.2.3 Certain Prohibited Transfers. Notwithstanding anything herein to the contrary, no transfer by a Member of its Company Interest may be made to any Person if legal counsel for the Company or the other Member renders written advice to the effect that it believes that there is a significant risk that (a), such transfer would be effected or would be deemed to be effected through an "established securities market" or a "secondary market" (or the substantial equivalent thereof) within the meaning of Section 7704 of the Code and the Regulations thereunder, or (b) such transfer would violate any Securities Laws.

11.2.4 Default. Notwithstanding anything herein to the contrary, no transfer of any Company Interest shall be permitted if such transfer would create a default under any Loan, or any material agreement to which the Company or any Subsidiary is a party.

11.2.5 Withdrawal. Except in connection with a permitted Transfer, no Member may withdraw from the Company without the consent of both Managing Members (and any dispute in this regard shall not be subject to the expedited arbitration provisions in Article 15).

11.2.6 Management. If a Member transfers its Company Interest, the transferee will (upon admission to the Company as a Member) be entitled to appoint a Managing Member to the same extent as the transferring Member.

ARTICLE 12 ADMISSION OF MEMBERS

Section 12.1 Admission of Successor Members. A successor to a Member's Company Interest that is transferred pursuant to Section 11.1.3 shall be entitled to admission to the Company as a Member on the terms and conditions set forth herein. The business of the Company and any Subsidiary shall be carried on after such transfer without dissolution. In each case, the admission to the Company is conditioned upon the successor Member executing and delivering to the Company an acceptance of all of the terms and conditions of this Agreement and such other documents or instruments as may be required by the remaining Managing Member(s) to effect the admission. Upon admission of the successor Member to the entire Company Interest of the transferring Member, the transferring Member shall be released from all further liability under this Agreement.

Section 12.2 Amendment of Agreement and Certificate. Upon the admission to the Company of any successor Member, the Managing Members shall take all steps necessary and appropriate under the Act to amend the records of the Company and, if necessary, to prepare as soon as practical an amendment of this Agreement and, if required by law, shall prepare and file an amendment to the Certificate.

ARTICLE 13
DISSOLUTION AND LIQUIDATION

Section 13.1 Dissolution. The Company shall dissolve, and its affairs shall be wound up, upon the first to occur of any of the following (each an “**Event of Dissolution**”):

Expiration of Term

13.1.2 . The expiration of its term as provided in Section 2.4;

Judicial Dissolution Decree

13.1.4 . Entry of a decree of judicial dissolution of the Company pursuant to the provisions of Section 18-802 of the Act;

Sale of Company’s Assets

13.1.6 . The sale, exchange or other disposition of all or substantially all of the Company Assets, unless such sale or other disposition involves the deferred payment of the consideration for such sale or disposition, in which latter event the Company shall dissolve on the last day of the calendar month during which the balance of such deferred payment is received by the Company;

Mutual Agreement

13.1.8 . The agreement of both Managing Members (and any dispute in this regard shall not be subject to the expedited arbitration provisions in Article 15); or

13.1.9 Other Event. Any other event permitting the dissolution or liquidation of the Company under this Agreement.

Section 13.2 Winding Up.

13.2.1 General. Upon the occurrence of an Event of Dissolution, the Company shall continue solely for the purposes of winding up its affairs in an orderly manner, liquidating its assets, and satisfying the claims of its creditors and the Members. No Member shall take any action that is inconsistent with, or not necessary to or appropriate for, the winding up of the Company’s business and affairs. A Person appointed by the Managing Members (excluding any Managing Member which is a Breaching Member) which may be one (1) or both Managing Members who is not a Breaching Member (the “**Liquidator**”), shall be responsible for overseeing the winding up and dissolution of the Company and shall take full account of the Company’s liabilities and property and the Company Assets shall be liquidated as promptly as is consistent with obtaining the fair value thereof, and the proceeds therefrom shall be applied and distributed in the following order:

- (a) First, to the payment and discharge of all of the Company’s Debt to creditors other than the Members;
- (b) Second, to Skechers, until the Unrecovered Contributions of the Members are proportionately equal;
- (c) Third, to the payment and discharge of all of the Company’s Debt to the Members, first with respect to any such Debt which has priority under any other provision of this Agreement, and thereafter pro rata in accordance with amounts owed to each such Member;
- (d) Fourth, to the Members *pari passu*, in proportion to their respective Unrecovered Contributions; and
- (e) Finally, the balance, if any, shall be distributed to the Members in the order and priority set forth in Section 5.2.

No Member shall receive any additional compensation for any services performed as Liquidator pursuant

to this Article 13, but any Liquidator which is not otherwise a Member or an Affiliate of a Member shall be entitled to receive reasonable compensation for rendering such services.

13.2.2 When Immediate Sale of Company Assets Impractical. Notwithstanding the provisions of Section 13.2.1 which require liquidation of the Company Assets, but subject to the order of priorities set forth therein, if prior to or upon dissolution of the Company the Liquidator determines that an immediate sale of part or all of the Company Assets would be impractical or would cause undue loss to the Members, the Liquidator may, in its sole and absolute discretion, defer for a reasonable time (consistent with the provisions of Section 13.2.3 below) the liquidation of any Company Assets except those necessary to satisfy current liabilities of the Company (including to those Members who are also creditors) or, with the consent of both Members, distribute to the Members, in lieu of cash, as tenants in common, either directly or in trust, and in accordance with the provisions of Section 13.2.1, undivided interests in the Company Assets as the Liquidator deems not suitable for liquidation. Any such distributions in kind shall be made only if, in the good faith judgment of the Liquidator, such distributions in kind are in the best interest of the Members, and shall be subject to such conditions relating to the disposition and management of such properties as the Liquidator deems reasonable and equitable and to any agreements governing the operation of such properties at such time. Any property distributed in kind shall be valued at fair market value by the Liquidator using such reasonable method of valuation as it may adopt (for purposes of adjusting Capital Accounts) and treated as though the property were sold for such value and the cash proceeds were distributed.

13.2.3 Compliance With Timing Requirements of the Regulations: Allowance for Contingent or Unforeseen Liabilities or Obligations. Notwithstanding anything to the contrary in this Agreement, in the event the Company is "liquidated" within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g) and with respect to such liquidation there is an Event of Dissolution, distributions under Section 13.2.1(d) to the Members who have positive Capital Account balances shall be made in compliance with the requirements in Regulations Section 1.704-1(b)(2)(ii)(b)(2) but all distributions shall still be made in the order of priority set forth in Section 5.2. In the discretion of the Liquidator, a pro rata portion of the distributions that would otherwise be made to the Members pursuant to this Article 13 may be: (a) distributed to a liquidating trust established for the benefit of the Members for the purposes of liquidating the Company Assets, collecting amounts owed to the Company, and paying any contingent or unforeseen liabilities or obligations of the Company or of the Liquidator arising out of or in connection with the Company (the assets of any such trust shall be distributed to the Members from time to time, in the reasonable discretion of the Liquidator, in the same proportions as the amount distributed to such trust by the Company would otherwise have been distributed to the Members pursuant to this Agreement); or (b) withheld to provide a reasonable Reserve for Company liabilities (contingent or otherwise) and to reflect the unrealized portion of any installment obligations owed to the Company; provided, that such withheld amounts shall be distributed to the Members as soon as practicable.

13.2.4 Deemed Distribution and Recontribution. Notwithstanding any other provision of this Article 13, in the event the Company is liquidated within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g) but no Event of Dissolution has occurred, the Company's property shall not be liquidated, the Company's liabilities shall not be paid or discharged, and the Company's affairs shall not be wound up. Instead, the Company shall be deemed to have transferred all of the Company Assets and liabilities to a successor entity (having the same federal income tax characteristics as the Company) in exchange for an interest in the successor entity and, immediately thereafter, the Company will be treated as distributing its interest in the successor entity to the Members in liquidation of the Company.

13.2.5 Rights of Members. Except as specifically provided in this Agreement, each Member shall look solely to the Company Assets for the return of its Capital Contribution and repayment of any loans owned to it by the Company or a Subsidiary to the extent provided in this Agreement and

shall have no right or power to demand or receive property other than cash from the Company or a Subsidiary to the extent provided in this Agreement. Except as specifically provided in this Agreement, no Member shall have priority over any other Member as to the return of its Capital Contributions, distributions or allocations. No Member has any ownership interest in any Company Assets and the Company Interest of the Members shall be personal property for all purposes.

13.2.6 Notice of Dissolution. In the event an Event of Dissolution occurs, the Liquidator shall, within ten (10) days thereafter, provide written notice thereof to each of the Members and to all other Persons with whom the Company or any Subsidiary regularly conducts business and shall publish notice thereof in a newspaper of general circulation in each place in which the Company or any Subsidiary regularly conducts business.

13.2.7 Cancellation of Certificate of Formation. When all liabilities and obligations of the Company and each Subsidiary have been paid or discharged, or adequate provision has been made therefor, and all of the remaining Company Assets have been distributed to the Members according to their respective rights and interests as provided in Section 13.2.1, the Company shall be terminated and a Certificate of Cancellation shall be executed on behalf of the Company by the Members (or such other Person or Persons as the Act may require or permit) and shall be filed with the Office of the Secretary of State of the States of Delaware and California, and the Liquidator or such other Person or Persons shall take such other actions, and shall execute, acknowledge and file any and all other instruments, as may be necessary or appropriate to reflect the dissolution and termination of the Company and each Subsidiary.

13.2.8 Reasonable Time for Winding-Up. Subject to Section 13.2.3, a reasonable time shall be allowed for the orderly winding-up of the business and affairs of the Company and each Subsidiary and the liquidation of its assets pursuant to this Section 13.2, in order to minimize any losses otherwise attendant upon such winding-up, and the provisions of this Agreement shall remain in effect between the Members during the period of liquidation.

ARTICLE 14 AMENDMENT OF AGREEMENT

Section 14.1 Amendments.

14.1.1 General. Amendments to this Agreement may be proposed by Member. Except as provided in Section 14.1.2 or Section 14.1.3, a proposed amendment shall be adopted and be effective as an amendment hereto only if it is approved by all Members. Any dispute among the Members regarding any proposed amendment shall not be subject to the expedited arbitration provisions in Article 15.

14.1.2 Managing Member's Power to Amend. Notwithstanding Section 14.1.1, either Managing Member shall have the power to amend this Agreement as may be required to facilitate or implement any of the following purposes:

- (a) to reflect the admission, substitution, termination, or withdrawal of Members in accordance with this Agreement; or
- (b) to satisfy any order, directive, opinion, ruling or regulation of a federal or state agency or contained in federal or state law applicable to the Company or any Subsidiary and required to be complied with; or
- (c) to conform to any "single-purpose entity" requirements of a Lender; or

(d) to correct any non-substantive, typographical errors in this Agreement.

The Member proposing the amendment will provide at least ten (10) days' prior written notice to the other Member when any action under this Section 14.1.2 is taken.

14.1.3 Consent of Adversely Affected Member Required. Notwithstanding Section 14.1.2 hereof, this Agreement shall not be amended without the consent of any Member adversely affected if such amendment would (a) modify the limited liability of such Member, (b) alter rights of such Member to receive distributions pursuant to Article 5 or Article 13, the allocations specified in **Exhibit "A"**, or the Capital Contribution obligations set forth in Article 4, (c) cause the termination of the Company prior to the time set forth in Section 2.4 or Section 13.1, or (d) amend this Section 14.1.3. Further, no amendment may alter the restrictions on the Managing Members' authority set forth herein without the consent of all Members.

ARTICLE 15 DISPUTE RESOLUTION

Section 15.1 Mediation. In the event of any dispute among the Members under this Agreement, prior to (and as a condition which must be satisfied before) any Member institutes litigation or arbitration (but not arbitration under a Section of this Agreement calling for expedited arbitration), the Members agree to submit the dispute to nonbinding mediation with JAMS or another mutually acceptable mediator. Such Mediation shall be completed no later than ninety (90) days after it is requested by any Member by notice to the other. Notwithstanding the foregoing, if appropriate, any Member may seek a provisional remedy (such as, but not limited to, injunctive relief) prior to commencing or completing such mediation.

Section 15.2 Arbitration. Should any dispute arise among the Members for which expedited arbitration is expressly called for under this Agreement, the parties shall submit such dispute to final and binding arbitration to be administered in accordance with the Streamlined Arbitration Rules and Procedures of JAMS (Judicial Arbitration and Mediation Service). Should any other dispute (other than pursuant to Section 3.1 or Section 14.1) arise among the Members which has not been resolved by mediation under Section 15.1, such dispute shall likewise be submitted to final and binding arbitration with JAMS. Unless the parties mutually agree otherwise, the arbitration shall take place at a JAMS Resolution Center in Los Angeles County, California, the arbitration shall be conducted by one arbitrator (who must be disinterested and independent of the Members), and the arbitrator shall award attorneys' fees and the costs of arbitration (JAMS fees and the fees of the arbitrator) to the prevailing party. The decision of the arbitrator (the "**Determination**") shall be binding and conclusive on the parties, except to the extent that appeals are permitted under California Code of Civil Procedure §1286.2. After the Determination, subject to any cure rights set forth in this Agreement, the prevailing party under the Determination may enforce its rights under this Agreement notwithstanding the filing or pendency of any appeal, but such party shall be responsible for any damages caused as a result of the taking of such action if the Determination is eventually set aside on appeal and either the court renders a decision on the merits in favor of the appealing party, or the appealing party is eventually the prevailing party in any subsequent arbitration proceeding. The arbitration award may be enforced in accordance with California Code of Civil Procedure §1285, et seq. or the Federal Arbitration Act (9 U.S.C. §1, et seq.). To the extent that matters of law are to be considered by the arbitrator, Delaware law shall apply (but the procedural aspects of the arbitration, as described above, shall be in accordance with California law). The Members need not submit any matter for which expedited arbitration is called for to Mediation under Section 15.1. Nothing herein shall prohibit a Member from seeking a provisional remedy from a court of competent jurisdiction (e.g., a temporary restraining order or preliminary injunctive relief) pending the results of any mediation or arbitration.

Section 15.3 Increased Costs. If, as a result of the institution of any arbitration among the Members, there is any increase in the cost to complete the construction of the Project, then any such increased cost shall be funded by the Member who is not the prevailing party in such arbitration (with no increase in such Member's Capital Account, Capital Contributions, or in either the HF Loan or the Skechers Loan, as the case may be). The amount of any such increase in cost shall be determined by the arbitrator, and any Member may raise such issue in the arbitration regardless of who initiated the arbitration or the nature of the dispute which caused the arbitration.

ARTICLE 16 DEFAULTS / REMEDIES

Section 16.1 Defaults. Except as otherwise expressly provided in this Agreement, if any Member defaults in the performance of its obligations under this Agreement, either of the other Members shall provide notice of such default and the allegedly defaulting Member shall have a period of fifteen (15) days to cure the default (but if the nature of the default is such that it cannot reasonably be cured within such fifteen (15) day period, then the allegedly defaulting Member shall have an additional reasonable amount of time, not to exceed another sixty (60) days, to cure the default if it commences the cure within the fifteen (15) day period and diligently pursues same to completion. Provided, however, that if the default cannot be cured, then no cure period shall be required. Provided, further, that this provision shall not apply to a default in making required Capital Contributions or loans under Article 4 or Article 6, as the provisions of Article 4 or Article 6 control under those circumstances. Any material breach by a Member of any of its material representations or warranties under this Agreement shall be a default (but subject to notice and cure as provided herein, to the extent applicable). In addition to other possible defaults under this Agreement, the following shall constitute defaults hereunder:

(a) If the HF Affiliate who has executed the assignment of contracts to the Company pursuant to Section 6.5(a) fails to honor its indemnification obligations thereunder, it shall be a default by HF hereunder.

Section 16.2 Remedies. Except as provided in this Agreement to the contrary, upon a default by any Member which is not cured as provided herein (or which cannot be cured) the non-defaulting Members shall have all rights and remedies at law and equity, as well as all rights and remedies afforded under this Agreement. If there is a dispute regarding whether or not a Member is in default, the matter shall be submitted to expedited arbitration in accordance with Article 15.

Section 16.3 Offset Rights. If any final judgment of a court of competent jurisdiction (or arbitration award, if arbitration is called for under this Agreement) is rendered against a Member, the other Members shall have the right to offset the amount thereof against any amounts thereafter due to be distributed to or otherwise payable to such Member, including distributions of Available Cash, the HF Loan or the Skechers Loan, as applicable, or any proceeds due to such Member under the Buy-Sell provisions in Article 8.

ARTICLE 17 GENERAL PROVISIONS

Section 17.1 Addresses and Notice. All notices to be given under this Agreement shall be in writing, and may be either delivered personally, by certified mail return receipt requested, or by a nationally recognized overnight courier providing proof of delivery (e.g., United Parcel Service or Federal Express) directed to the parties at their respective addresses set forth below. Notices to the Company shall be delivered at its principal place of business.

HF:

HF Logistics I, LLC
c/o Highland Fairview Properties
14225 Corporate Way
Moreno Valley, California 92553
Attention: Iddo Benzeevi

With Copy To:

Baker & Hostetler LLP
11601 Wilshire Boulevard, Suite 1400
Los Angeles, California 90025-7120
Attention: Bruce R. Greene, Esq.

With Additional Copy To:

James Lieb, Esq.
Executive Vice President
The Trump Group
400 Park Avenue
New York, NY 10022

SKECHERS:

Skechers U.S.A., Inc.
228 Manhattan Beach Boulevard
Manhattan Beach, California 90266
Attention: David Weinberg, COO

With Copy To:

Greenberg Traurig, LLP
2450 Colorado Avenue
Suite 400 East
Santa Monica, California 90404
Attention: Eric Rowen, Esq.

With Additional Copy to:

Philip Paccione, Esq.
Skechers U.S.A., Inc.
228 Manhattan Beach Boulevard
Manhattan Beach, California 90266

Notices given personally shall be deemed received upon delivery. Notices sent by overnight courier shall be deemed given upon delivery to the courier service. Mailed notices shall be deemed given on the date of mailing by certified mail. The time to respond to any notice shall begin to run on the date of delivery at the proper address (or refusal of delivery during normal business hours). Any Member hereto may designate a different address to which notices shall thereafter be directed by notice to the other Members given in the manner hereinabove set forth.

Section 17.2 Titles and Captions. All article or section titles or captions in this Agreement are for convenience only and shall not be deemed part of this Agreement and in no way define, limit, extend or describe the scope or intent of any provisions hereof. Except as specifically provided otherwise, references to “Articles” and “Section” are to Articles and Sections of this Agreement. All schedules and exhibits annexed or attached hereto are expressly incorporated into and made a part of this Agreement.

Section 17.3 Interpretation. Whenever the context may require, any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa. The terms “include” and “including” shall be construed as if followed by the phrase “without limitation”.

Section 17.4 Further Action. The parties shall execute and deliver all documents, provide all information and take or refrain from taking action as may be necessary or appropriate to achieve the purposes of this Agreement.

Section 17.5 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their heirs, executors, administrators, successors, legal representatives and assigns, subject to the restrictions on transfer set forth herein. No Member may assign its rights under this Agreement or delegate its obligations under this Agreement, except as expressly permitted hereunder.

Section 17.6 Waiver of Partition. The Members hereby agree that the real property of the Company and each Subsidiary is not and will not be suitable for partition. Accordingly, each of the Members hereby irrevocably waives any and all rights (if any) that it may have to maintain any action for partition of any of the Company Assets or any Subsidiary’s Assets or to maintain an action to compel a judicial dissolution except to compel a liquidation or dissolution of the Company or a Subsidiary as expressly provided in this Agreement.

Section 17.7 Entire Agreement. This Agreement and the other agreements referenced herein constitute the entire agreement among the parties with respect to the matters contained herein; they supersede any prior letters of intent, agreements or understandings among them with respect to the matters contained herein and the Agreement may not be modified or amended in any manner other than pursuant to Article 14.

Section 17.8 Securities Law Provisions. The Company Interests have not been registered under the federal or state securities laws of any state and, therefore, may not be resold unless appropriate federal and state securities laws, as well as the provisions of Article 11, have been complied with.

Section 17.9 Creditors. None of the provisions of this Agreement shall be for the benefit of, or shall be enforceable by, any third party creditor of the Company, any Subsidiary, or any Person who is not a Member.

Section 17.10 Waiver. No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute waiver of any such breach or any other covenant, duty, agreement or condition.

Section 17.11 Execution Counterparts. This Agreement may be executed in counterparts, all of which together shall constitute one agreement binding on all the parties hereto, notwithstanding that all such parties are not signatories to the original or the same counterpart.

Section 17.12 Applicable Law. This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to the principles of conflicts of law. The parties both agree to submit to the jurisdiction of any state or federal court in the State of California, and further agree that venue in any legal action shall be in the County of Los Angeles.

Section 17.13 Invalidity of Provisions. If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby.

Section 17.14 Limitation of Member Liability. Any obligation or liability whatsoever of the Members which may arise at any time under this Agreement shall be satisfied, if at all, out of the Members' assets only, except as expressly provided in this Agreement. No such obligation or liability shall be personally binding upon, nor shall resort for the enforcement thereof be had to, the property of any of the Members' shareholders, partners, members, trustees, officers, employees or agents, regardless of whether such obligation or liability is in the nature of contract, tort or otherwise, except as expressly provided in this Agreement. NEITHER THE COMPANY NOR ANY SUBSIDIARY NOR ANY MEMBER SHALL BE RESPONSIBLE OR LIABLE TO ANY MEMBER, OR ANY OF THEIR RESPECTIVE AFFILIATES, FOR ANY PUNITIVE, EXEMPLARY OR CONSEQUENTIAL DAMAGES WHICH MAY BE ALLEGED AS A RESULT OF THE BREACH OF THIS AGREEMENT.

Section 17.15 WAIVER OF JURY TRIAL. BECAUSE DISPUTES IN CONNECTION WITH COMPLEX FINANCIAL TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND EXPERT PERSON AND THE MEMBERS WISH APPLICABLE STATE AND FEDERAL LAWS TO APPLY (RATHER THAN ARBITRATION RULES), THE MEMBERS DESIRE THAT THEIR DISPUTES BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS; THEREFORE, TO ACHIEVE THE BEST COMBINATION OF THE BENEFITS OF THE JUDICIAL SYSTEM AND OF ARBITRATION (WITHOUT SUBMITTING TO ARBITRATION), TO THE FULLEST EXTENT ALLOWABLE BY LAW, THE MEMBERS WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT OR PROCEEDING BROUGHT TO ENFORCE OR DEFEND ANY RIGHTS OR REMEDIES UNDER THIS AGREEMENT.

Section 17.16 Construction. This Agreement shall be deemed to have been drafted jointly by all Members and the provisions of this Agreement shall not be construed against any Member as a result of any claim that such Member (or its legal counsel) drafted same.

Section 17.17 Attorneys' Fees. Should any Member be required to bring legal action or arbitration to enforce its rights under this Agreement, the prevailing party in such legal action or arbitration shall be entitled to recover from the losing party its reasonable attorneys' fees and costs in addition to any other relief to which it is entitled. Such recovery of attorneys' fees shall include any attorneys' fees incurred in connection with any bankruptcy or reorganization proceeding (including stay litigation) and any attorneys' fees incurred on appeal. The parties further agree that any attorneys' fees incurred in enforcing any judgment are recoverable as a separate item, and that this provision is intended to be severable from the other provisions of this Agreement, shall survive the judgment, and is not to be deemed merged into the judgment.

Section 17.18 Confidentiality. Subject to the provisions in Section 9.1, the terms and conditions of this Agreement, including its existence, shall be confidential information and shall not be disclosed by any Member to any Person without the prior consent of the other Members, except that a Member may disclose the terms and conditions of this Agreement to such party's Affiliates, attorneys and

other advisers, and any Lender, provided that such Persons are advised of the confidentiality restrictions contained herein, and except that any other disclosure may be made if required by law (including any required SEC filings or disclosures). If any Member determines that it is required by law to disclose information regarding this Agreement, such Member shall, within a reasonable time before making any such disclosure, consult with the other Members regarding such disclosure and seek confidential treatment for such portions of the disclosure as may be reasonably requested by the other Members.

Section 17.19 Adjacent Development. HF represents to Skechers that HF or its Affiliates own certain property which is situated in the proximity of the Property, which is under development or which will be developed during the term of this Agreement and the Lease. Skechers acknowledges that it has no interest in any such property or the developments thereon (except for the property which is owned by T1), and that there will be a certain amount of noise, construction dust and debris and inconvenience associated with such development.

Section 17.20 HF-SKX Property Development. Notwithstanding anything in this Agreement to the contrary, in the event that Skechers Parent elects to terminate the Lease as a result of the failure of the Company to obtain Entitlements (as more fully set forth in the Lease), then the following shall occur.

(a) The Initial Capital Contribution of \$7,000,000 made by Skechers' Parent pursuant to Section 4.1.1(a) shall be returned to Skechers within thirty (30) days after the date that the Lease has been terminated.

(b) Within ninety (90) days after the date that the Lease has been terminated, HF shall make an Additional Capital Contribution in the amount of \$7,000,000 to the Company, and the Company, shall distribute such amount to Skechers in full redemption of the entire Company Interest of Skechers, and Skechers shall thereafter cease to be a Member of the Company. Skechers shall represent and warrant to the Company and its remaining Members that it is the sole lawful owner of its Company Interest, and that its Company Interest is not subject to any liens, security interests or encumbrances.

(signature page follows)

IN WITNESS WHEREOF, the Members have executed this Agreement as of the date first written above.

“HF”

HF LOGISTICS I, LLC, a Delaware limited liability company

By: _____
Iddo Benzeevi, President and Chief Executive Officer

“SKECHERS”

SKECHERS R.B., LLC, a Delaware limited liability company

By: Skechers U.S.A., Inc., a Delaware corporation, its sole member

By: _____
David Weinberg, Chief Operating Officer

“HFPV”

HIGHLAND FAIRVIEW PARTNERS V, a Delaware limited liability

By: _____
Its:

By its signature hereon, Skechers Parent guarantees to HF, the Company and the Subsidiaries its obligation to fund the Seven Million Dollar (\$7,000,000) Initial Capital Contribution of Skechers as set forth in Section 4.1.1(a), subject to any conditions to such funding set forth in the Agreement for the benefit of Skechers.

“SKECHERS PARENT”

SKECHERS U.S.A., INC., a Delaware corporation

By: _____
David Weinberg, Chief Operating Officer

EXHIBIT “A”

**CAPITAL ACCOUNTS,
ALLOCATIONS OF PROFIT AND LOSS,
AND OTHER TAX MATTERS**

**ARTICLE 1
DEFINITIONS**

Section 1.1 Definitions.

All capitalized terms used herein shall have the meanings assigned to them in the Agreement. Notwithstanding the foregoing, the following definitions shall be applicable to the following terms as used in this Exhibit “A” and such definitions shall prevail in the event of a conflict with the definitions in the Agreement. Referring to Sections “hereof” shall mean Sections of this Exhibit “A”.

(a) Agreed Value.

“Agreed Value” of any property contributed to the capital of the Company shall mean the fair market value of such property at the time of contribution (as agreed to in writing by the Members without regard to Section 7701(g) of the Code (*i.e.*, determined without regard to the amount of Nonrecourse Liabilities to which such property is subject)).

(b) Book Basis.

The initial “Book Basis” of any Company property shall be equal to the Company’s initial adjusted tax basis in such property; *provided, however*, that the initial “Book Basis” of any Company property contributed to the capital of the Company shall be equal to the Agreed Value of such property. Effective immediately after giving effect to the allocations of profit and loss, as computed for book purposes, for each fiscal year under Section 3.1 hereof, the Book Basis of each Company property shall be adjusted downward by the amount of Book Depreciation allowable to the Company for such fiscal year with respect to such property. In addition, but subject in all events to the provisions of Section 3.5 hereof, effective immediately prior to any Revaluation Event, the Book Basis of each Company property shall be further adjusted upward or downward, as necessary, so that it will be equal to the fair market value of such property at the time of such Revaluation Event (as agreed to in writing by the Members taking Section 7701(g) of the Code into account (*i.e.*, such value shall not be agreed to be less than the amount of Nonrecourse Liabilities to which such property is subject)).

(c) Book Depreciation.

The amount of “Book Depreciation” allowable to the Company for any fiscal year with respect to any Company property shall be equal to the product of (i) the amount of Tax Depreciation allowable to the Company for such year with respect to such property, multiplied by (ii) a fraction, the numerator of which is the property’s Book Basis as of the beginning of such year (or the date of acquisition if the property is acquired during such year) and the denominator of which is the property’s adjusted tax basis as of the beginning of such year (or the date of acquisition if the property is acquired during such year). If the denominator of the fraction described in clause (ii) above is equal to zero, the amount of “Book Depreciation” allowable to the Company for any fiscal year with respect to the Company property in question shall be determined under any reasonable method selected by the Tax Matters Partner.

(d) Book Gain or Loss.

“Book Gain or Loss” realized by the Company in connection with the disposition of any Company property shall mean the excess (or deficit) of (i) the amount realized by the Company in connection with such disposition (as determined under Section 1001 of the Code) over (ii) the Book Basis of such property at the time of the disposition.

(e) Book/Tax Disparity Property.

“Book/Tax Disparity Property” shall mean any Company property that has a Book Basis which is different from its adjusted tax basis to the Company. Thus, any property that is contributed to the capital of the Company by a Member shall be a Book/Tax Disparity Property if its Agreed Value is not equal to the Company’s initial tax basis in the property. In addition, once the Book Basis of a Company property is adjusted in connection with a Revaluation Event to an amount other than its adjusted tax basis to the Company, the property shall thereafter be a “Book/Tax Disparity Property”.

(f) Capital Accounts.

“Capital Account” shall have the meaning assigned to such term in Section 2.1 hereof.

(g) Capital Transaction.

“Capital Transaction” means any of the following: (i) a sale, exchange, transfer, assignment or other disposition of all or a portion of any Company Asset (but not including sales in the ordinary course of business of inventory, operating equipment or furniture, fixtures, and equipment); (ii) any financing or refinancing of, or with respect to, any Company Asset except for equipment leases or purchase money financing for movables; (iii) any condemnation or transfer in lieu of condemnation of all or a portion of any Company Asset; (iv) any collection in respect of property, hazard, or casualty insurance (but not business interruption insurance) or any damage award; or (v) any other transaction the proceeds of which, in accordance with generally accepted accounting principles, are considered to be capital in nature.

(h) Company Minimum Gain.

“Company Minimum Gain” shall mean the amount of “partnership minimum gain” that is computed in accordance with the principles of Section 1.704-2(d)(1) of the Regulations. A Member’s share of such Company Minimum Gain shall be calculated in accordance with the provisions of Section 1.704-2(g) of the Regulations.

(i) Deductible Expenses.

“Deductible Expenses” for any fiscal year (or portion thereof) shall mean all items, as calculated for book purposes, which are allowable as deductions to the Company for such period under federal income tax accounting principles (including Book Depreciation but excluding any expense or deduction attributable to a Capital Transaction).

(j) Economic Risk of Loss.

“Economic Risk of Loss” borne by any Member for any Company liability shall mean the aggregate amount of economic risk of loss that such Member and all Related Persons to such Member are treated as bearing with respect to such liability pursuant to Section 1.752-2 of the Regulations.

(k) Gross Asset Value.

“Gross Asset Value” means, with respect to any asset, the asset’s adjusted basis for U.S. federal income tax purposes except as follows:

(i) the initial Gross Asset Value of any asset contributed by a Member to the Company will be the gross Fair Market Value of the asset;

(ii) the Gross Asset Value of all Company Assets will be adjusted to equal their respective gross fair market values as of the following times: (a) the occurrence of a Revaluation Event; (b) the liquidation of the Company within the meaning of Section 1.704-1(b)(2)(ii)(g) of the Regulations; and (c) upon any other event on which it is necessary or appropriate in order to comply with the Regulations under Code Section 704(b);

(iii) the Gross Asset Value of any Company Asset distributed to any Member will be adjusted to equal the gross fair market value of the asset on the date of distribution; and

(iv) the Gross Asset Value of Company Assets will be increased (or decreased) to reflect any adjustments to the adjusted basis of these assets pursuant to Code Section 734(b) or Code Section 743(b), but only to the extent that such adjustments are taken into account in determining the Capital Accounts pursuant to Section 1.704-1(b)(2)(iv)(m) of the Regulations.

(l) Gross Income.

“Gross Income” for any fiscal year (or portion thereof) shall mean the gross income derived by the Company from all sources (other than from capital contributions and loans to the Company and other than from Capital Transactions) during such period, as calculated for book purposes in accordance with federal income tax accounting principles.

(m) Liquidation.

“Liquidation” of a Member’s Company Interest shall mean and be deemed to occur upon the earlier of (i) the date upon which the Company is terminated under Section 708(b)(1) of the Code, (ii) the date upon which the Company ceases to be a going concern (even though it may continue in existence for the limited purpose of winding up its affairs, paying its debts and distributing any remaining Company properties to the Members) or (iii) the date upon which there is a liquidation of the Member’s Company Interest (but the Company is not terminated) under Section 1.761-1(d) of the Regulations. “Liquidation” of the Company shall mean and be deemed to occur upon the earlier of (x) the date upon which the Company is terminated under Section 708(b)(1) of the Code or (y) the date upon which the Company ceases to be a going concern (even though it may continue in existence for the limited purpose of winding up its affairs, paying its debts and distributing any remaining Company properties to the Members).

(n) Member Minimum Gain.

“Member Minimum Gain” shall mean “partner nonrecourse debt minimum gain,” as defined in Section 1.704-2(i)(2) of the Regulations and determined in accordance with Sections 1.704-2(i)(3) and 1.704-2(k) of the Regulations.

(o) Member Nonrecourse Deductions.

“Member Nonrecourse Deductions” shall mean “partner nonrecourse deductions,” as defined in Section 1.704-2(i) of the Regulations.

(p) Member Nonrecourse Debt.

“Member Nonrecourse Debt” shall mean “partner nonrecourse debt,” as defined in Section 1.704-2(b)(4) of the Regulations.

(q) Nonrecourse Deductions.

“Nonrecourse Deductions” shall mean any and all items of Book Depreciation and other Deductible Expenses that are treated as “nonrecourse deductions” under Section 1.704-2(c) of the Regulations.

(r) Nonrecourse Liability.

“Nonrecourse Liability” shall mean any Company liability (or portion thereof) treated as a nonrecourse liability under Section 1.704-2(b)(3) of the Regulations. Subject to the foregoing sentence, Nonrecourse Liability shall mean any Company liability (or portion thereof) for which no Member bears the Economic Risk of Loss.

(s) Operations.

“Operations” shall mean all revenue producing activities of the Company other than activities constituting or relating to Capital Transactions.

(t) Profits and Loss.

“Profits” and “Loss” mean, for each Tax Period, an amount equal to the Company’s taxable income or loss for such Tax Period, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss, or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments (without duplication):

(i) Any income of the Company that is exempt from United States federal income tax and not otherwise taken into account in computing Profits or Losses pursuant to this definition of “Profits” and “Losses” shall be added to such taxable income or loss;

(ii) Any expenditures of the Company described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Regulations Section 1.704-1(b)(2)(iv)(i), and not otherwise taken into account in computing Profits or Losses pursuant to this definition of “Profits” and “Losses,” shall be subtracted from such taxable income or loss; and

(iii) Any items of income, loss or deduction specially allocated under Article 3 of this Exhibit “A” shall not be taken into account in computing “Profits” or “Loss.”

(u) Recourse Debt.

“Recourse Debt” shall mean any Company liability (or portion thereof) that is not a Nonrecourse Liability.

(v) Regulations.

“Regulations” shall mean the regulations promulgated by the United States Department of the Treasury pursuant to and in respect of provisions of the Code. All references herein to sections of the Regulations shall include any corresponding provision or provisions of succeeding, similar, substitute proposed or final Regulations.

(w) Related Person.

“Related Person” shall mean, as to any Member, any person who is related to such Member (within the meaning of Section 1.752-4(b) of the Regulations).

(x) Revaluation Event.

“Revaluation Event” shall mean any of the following occurrences: (i) the contribution of money or other property (other than *a de minimis* amount) by a new or existing Member to the capital of the Company as consideration for the issuance of an additional interest in the Company; (ii) the distribution of money or other property (other than *a de minimis* amount) by the Company to a retiring or continuing Member as consideration for an interest in the Company or (iii) any other event permitting a revaluation of Capital Accounts under the Regulations. Notwithstanding the foregoing, an event described in the preceding sentence shall not constitute a Revaluation Event if both Members reasonably determine that it is not necessary to adjust the Book Basis of the Company’s Property or the Members’ Capital Accounts in connection with the occurrence of any such event.

(y) Tax Depreciation.

“Tax Depreciation” for any fiscal year shall mean the amount of depreciation, cost recovery or other amortization deductions allowable to the Company for federal income tax purposes for such year.

(z) Tax Items.

“Tax Items” shall mean, with respect to any property, all items of profit and loss (including Tax Depreciation) recognized by or allowable to the Company with respect to such property, as computed for federal income tax purposes.

(aa) Unrealized Book Gain or Loss.

“Unrealized Book Gain Or Loss” with respect to any Company property shall mean the excess (or deficit) of (i) the fair market value of such property (as agreed to in writing by the Members taking Section 7701(g) of the Code into account (*i.e.*, such value shall not be agreed to be less than the amount of Nonrecourse Liabilities to which such property is subject)), over (ii) the Book Basis of such property.

ARTICLE 2
CAPITAL ACCOUNTS

Section 2.1 Capital Accounts.

A separate “Capital Account” (herein so called) shall be maintained for each Member for the full term of the Agreement in accordance with the capital accounting rules of Section 1.704-1(b)(2)(iv) of the Regulations. Pursuant to the basic rules of Section 1.704-1(b)(2)(iv) of the Regulations, the balance of each Member’s Capital Account shall be:

(a) Increased by the amount of money contributed by such Member (or such Member’s predecessor in interest) to the capital of the Company pursuant to ARTICLE 4 of the Agreement and this Exhibit “A” and decreased by the amount of money distributed to such Member (or such Member’s predecessor in interest) pursuant to ARTICLE 5 or ARTICLE 13 of the Agreement;

(b) Increased by the fair market value of the Property (determined without regard to Section 7701(g) of the Code) (*i.e.*, determined without regard to the amount of Nonrecourse Liabilities to which such property is subject) contributed by such Member (or such Member’s predecessor in interest) to the capital of the Company pursuant to ARTICLE 4 or ARTICLE 13 of the Agreement and this Exhibit “A” (net of all liabilities secured by such property that the Company is considered to assume or take subject to under Section 752 of the Code) and decreased by the fair market value of the Property (determined without regard to Section 7701(g) of the Code (*i.e.*, determined without regard to the amount of Nonrecourse Liabilities to which such property is subject)) distributed to such Member (or such Member’s predecessor in interest) by the Company pursuant to ARTICLE 5 of the Agreement (net of all liabilities secured by such property that such Member is considered to assume or take subject to under Section 752 of the Code);

(c) Increased by the amount of each item of Company Profit (and other items of income or gain) allocated to such Member (or such Member’s predecessor in interest) pursuant to Section 3.1 hereof;

(d) Decreased by the amount of each item of Company Loss (and other items of loss or deduction) allocated to such Member (or such Member’s predecessor in interest) pursuant to Section 3.1 hereof; and

(e) Otherwise adjusted in accordance with the other capital account maintenance rules of Section 1.704-1(b)(2)(iv) of the Regulations including, without limitation, the capital account maintenance rules for the treatment of liabilities as set forth in Section 1.704-1(b)(2)(iv)(c) of the Regulations (provided that there shall be no double counting of items taken into account in the definition of “Profit” or “Loss.”)

Section 2.2 Additional Provisions Regarding Capital Accounts.

(a) If a Member pays any Company indebtedness, such payment shall be treated as a contribution by that Member to the capital of the Company, and the Capital Account of such Member shall be increased by the amount so paid by such Member.

(b) Except as otherwise provided herein, no Member may contribute capital to, or withdraw capital from, the Company. To the extent any monies which any Member is entitled to receive pursuant to the Agreement would constitute a return of capital, each of the Members consents to the withdrawal of such capital.

(c) A loan by a Member to the Company shall not be considered a contribution of money to the capital of the Company, and the balance of such Member's Capital Account shall not be increased by the amount so loaned. No repayment of principal or interest on any such loan, reimbursement made to a Member with respect to advances or other payments made by such Member on behalf of the Company or payments of fees to a Member or Related Person to such Member which are made by the Company shall be considered a return of capital, or any other form of distribution, or in any manner affect the balance of such Member's Capital Account. No Member or Related Person to such Member shall make a loan to the Company unless such loan is authorized pursuant to the provisions of the Agreement.

(d) No Member with a deficit balance in its Capital Account shall have any obligation to the Company, any other Member or any other Person to restore said deficit balance. In addition, no venturer or partner in any Member shall have any liability to the Company or any other Member for any deficit balance in such venturer's or partner's capital account in the Member in which it is a partner or venturer. Furthermore, a deficit Capital Account balance of a Member (or a capital account of a partner or venturer in a Member) shall not be deemed to be a liability of such Member (or of such venturer or partner in such Member) or a Company Asset or property. The provisions of this Section 2.2(d) shall not affect any Member's obligation to make capital contributions to the Company that are required to be made by such Member pursuant to the Agreement.

(e) Except as otherwise provided herein or in the Agreement, no interest will be paid on any capital contributed to the Company or the balance in any Member's Capital Account.

ARTICLE 3 ALLOCATIONS OF PROFIT AND LOSS

Section 3.1 Allocations of Profit and Loss. Subject to the provisions of Section 3.1, Section 3.2, Section 3.3, Section 3.4, and Section 3.5, hereof, all items of Profit and Loss realized by the Company during each fiscal year shall be allocated among the Members (after giving effect to all adjustments attributable to all contributions and distributions of money and property effected during such year) in the manner prescribed in this Section 3.1.

(a) Minimum Gain Chargeback. Pursuant to Section 1.704-2(f) of the Regulations (relating to minimum gain chargebacks) and notwithstanding any other provision of the Agreement, if there is a net decrease in Company Minimum Gain for such year (or if there was a net decrease in Company Minimum Gain for a prior fiscal year and the Company did not have sufficient amounts of Gross Income and Book Gain during prior years to allocate among the Members under this Section 3.1(a)), then items of Company Gross Income and Book Gain shall be allocated, before any other allocation is made pursuant to the succeeding provisions of this Section 3.1 for such year, to each Member in an amount equal to such Member's share of the net decrease in such Company Minimum Gain (as determined under Section 1.704-2(g)(2) of the Regulations), subject to any exceptions to such requirement contained in the Regulations. Such items shall consist of (i) Book Gain from the disposition of property subject to a Nonrecourse Liability, and (ii) if necessary, a pro rata portion of other items of Gross Income and Book Gain. This Section 3.1(a) is intended to comply with the minimum gain chargeback requirement in Section 1.704-2(f) of the Regulations and shall be interpreted consistently therewith.

(b) Member Minimum Gain Chargeback. Pursuant to Section 1.704-2(i)(4) of the Regulations (relating to chargebacks of partner nonrecourse debt minimum gain) and notwithstanding any other provisions of this Agreement, if there is a net decrease in Member Minimum Gain for such year (or if there was a net decrease in Member Minimum Gain for a prior fiscal year and the Company did not

have sufficient amounts of Gross Income and Book Gain during prior years to allocate among the Partners under this Section 3.1(b), then items of Company Gross Income and Book Gain shall be allocated, before any other allocation is made pursuant to the succeeding provisions of this Section 3.1 for such year, to each Member in an amount equal to such Member's share of the net decrease in such Member Minimum Gain (as determined pursuant to Section 1.704-2(i)(4) of the Regulations), subject to any exceptions to such requirement contained in the Regulations. Such items shall consist of (i) Book Gain from the disposition of property subject to a Member Nonrecourse Debt, and (ii) if necessary, a pro rata portion of other items of Gross Income and Book Gain not allocated pursuant to Section 3.1(a) above. This Section 3.1(b) is intended to comply with the partner nonrecourse debt minimum gain chargeback requirement in Section 1.704-2(i)(4) of the Regulations and shall be interpreted consistently therewith.

(c) Qualified Income Offset. Any Member who unexpectedly receives an adjustment, allocation or distribution described in Regulation Sections 1.704-1 (b)(2)(ii)(d)(4), (5) or (6) of the Regulations that causes a deficit balance in its Capital Account (in excess of any amounts which such Member is obligated to restore to the Company, if any, or any deemed deficit restoration obligation pursuant to Regulation Sections 1.704-2(g)(1) and (i)(5) of the Regulations), shall be allocated items of Gross Income and Book Gain before any other allocation is made pursuant to the succeeding provisions of this Section 3.1 for such year in an amount and a manner sufficient to eliminate, to the extent required by the Treasury Regulations, such deficit balance as quickly as possible. This Section 3.1(c) is intended to comply with the alternate test for economic effect set forth in Section 1.704-1(b)(2)(ii)(d) of the Regulations and shall be interpreted and applied in a manner consistent therewith.

(d) Nonrecourse Deductions. All Nonrecourse Deductions shall be allocated among the Members, pro rata in accordance with their respective Contribution Percentages and in a manner consistent with Section 1.704-2(e) of the Regulations.

(e) Member Nonrecourse Deductions. All Member Nonrecourse Deductions attributable to Member Nonrecourse Debt shall be allocated among the Members bearing the Economic Risk of Loss for such debt consistent with Section 1.704-2(i)(1) of the Regulations.

(f) Nonrecourse Liabilities. For purposes of Section 752 of the Code, all Nonrecourse Liabilities of the Company shall be shared among the Members in the ratio of their Contribution Percentages.

(g) Code Section 754 Adjustment. To the extent an adjustment to the adjusted tax basis of any Company property, pursuant to Code Sections 734(b) or 743(b) is required, pursuant to Section 1.704-1(b)(2)(iv)(m)(2) or 1.704-1(b)(2)(iv)(m)(4) of the Regulations, to be taken into account in determining Capital Accounts as a result of a distribution to a Member in complete liquidation of its interest in the Company, the amount of such adjustment to Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specifically allocated to the Members in accordance with their interests in the Company (in the event Section 1.704-1(b)(2)(iv)(m)(2) of the Regulations applies) or to the Members to whom such distribution was made (in the event Section 1.704-1(b)(2)(iv)(m)(4) of the Regulations applies).

(h) Special Allocation of Amounts Required. In the event and to the extent that any amount paid by the Company to a Member or to a person related to a Member is treated as having been received in a partner capacity for federal income tax purposes, there shall be specially allocated to such Member, before any allocation is made pursuant to Section 3.1(i) hereof, an amount of Gross Income equal to such amount that is so treated.

(i) General Allocations. After giving effect to the special allocations in Sections 3.1(a) through (h) above, all items of Profit and Loss realized by the Company shall be allocated among the Members in such a manner that would cause their respective Capital Account balances (determined prior to taking into account distributions actually made within the fiscal year), to the greatest extent possible, to be equal to (i) the amount that would be distributed to each Member, if (a) the Company were to sell all of its assets for their Gross Asset Values, (b) all Company liabilities were satisfied (limited with respect to each nonrecourse liability to the Gross Asset Values of the assets securing such liability), and (c) the Company were to distribute the sale proceeds and other assets of the Company pursuant to Section 5.2 of the Agreement, plus (ii) the amount of cash and other property that was distributed to the Member within such fiscal year, minus (iii) such Member's share of Company Minimum Gain or Member Nonrecourse Debt Minimum Gain, computed immediately prior to the hypothetical sale of assets.

(j) Character of Income and Loss. For purposes of determining the nature (as ordinary or capital) of any Company profit allocated among the Members for federal income tax purposes pursuant to this Section 3.1, the portion of such profit required to be recognized as ordinary income pursuant to Sections 1245 and/or 1250 of the Code shall be deemed to be allocated among the Members in the same proportion that they were allocated and claimed the Book Depreciation deductions, or basis reductions, directly or indirectly giving rise to such treatment under Sections 1245 and/or 1250 of the Code or in any other manner required by temporary or final Regulations.

(k) Limitations On Allocations. Notwithstanding the provisions of Section 3.1(h) above:

(i) No Loss or items of loss or deduction shall be allocated to any Member that has a deficit Capital Account balance exceeding its actual or deemed obligation to restore the same or would have a deficit Capital Account balance exceeding its actual or deemed obligation to restore the same as a result of any such allocation while any other Member has a positive Capital Account balance, it being the intention of the Members that such loss shall be allocated in those circumstances solely to the Member(s) with positive Capital Account balances;

(ii) In the event no Member has a positive Capital Account balance, Loss shall be allocated between the Members pro rata based on their respective Contribution Percentages; and

(iii) Any Loss from a Liquidating Transaction, as well as any Profit or Loss for the fiscal year in which the Liquidating Transaction takes place, shall be allocated among the Members in such a manner as to cause their respective positive Capital Account balances, immediately following such allocations, to be equal, to the maximum extent possible, to the distributions each would receive under ARTICLE 5 of the Agreement upon the distribution of the available liquidation proceeds.

Section 3.2 Allocations of Income and Loss in Respect of Interests Transferred.

If any Company Interest is transferred, or is increased or decreased by reason of the admission of a new Member or otherwise, during any fiscal year, each item of Profit and Loss for such year shall be divided and allocated among the Members in question by taking account of their varying interests in the Company during such year (on a daily, monthly or other basis, an interim closing of the books method or any other permissible method under Section 706 of the Code and the Regulations thereunder) as determined by the Managing Members.

Section 3.3 Allocation of Tax Items.

(a) Except as otherwise provided in the succeeding provisions of this Section 3.3, each Tax Item shall be allocated among the Members in the same manner as each correlative item of Profit or Loss, is allocated pursuant to the provisions of Section 3.1 hereof.

(b) The Members hereby acknowledge that all Tax Items in respect of Book/Tax Disparity Property are required to be allocated among the Members in the same manner as under Section 704(c) of the Code (as specified in Sections 1.704-1(b)(2)(iv)(f) and 1.704-1(b)(2)(iv)(g) of the Regulations) and that the principles of Section 704(c) of the Code require that such Tax Items must be shared among the Members so as to take account of the variation between the adjusted tax basis and Book Basis of each such Book/Tax Disparity Property. Thus, notwithstanding anything in Section 3.1 or 3.3(a) hereof to the contrary, the Members' distributive shares of Tax Items in respect of each Book/Tax Disparity Property shall be separately determined and allocated among the Members in accordance with the principles of Section 704(c) of the Code. The method for making all Section 704(c) allocations of the Company with respect to the Initial Capital Contribution shall be mutually agreed upon by the Managing Members, and if the Managing Members cannot mutually agree, then the "traditional method" shall be used. HF agrees to provide Skechers with its adjusted tax basis in the Property (as of the Closing Date) within sixty (60) days after the Closing Date.

(c) The Members agree that the contribution by HF of all property relating to the Project (including fee title to the Property and all of right, title and interest in all personal property and all plans, specifications, architectural drawings and renderings, surveys and other collateral material relating to the ownership and development of the Property) to the Company pursuant to Section 4.1.1(b) of the Agreement and the HF Loan made pursuant to Section 6.4 of the Agreement will be treated by the Company and HF on their respective tax returns as follows under the Regulations under Code Section 707:

(i) Pursuant to Section 1.707-4(d) of the Regulations, the first payments of principal made under the HF Note are to be treated for all purposes as payments made to HF to reimburse HF for capital expenditures incurred by HF with respect to all property relating to the Project during the two (2) year period preceding the transfer by HF to the Company of such property, subject to the limitation contained in such Regulation that such pre-formation expenditures shall not exceed twenty percent (20%) of the fair market value of such property at the time of contribution (the "20% Limitation") unless the fair market value of such property does not exceed one hundred twenty percent (120%) of the adjusted basis of such property at the time of contribution (in which case such 20% Limitation shall not apply);

(ii) The remainder of the principal payments made under the HF Note shall be treated as payments made with respect to a sale to the Company by HF of a proportionate amount of all property relating to the Project on the date of the contribution of such property to the Company (with the portion of such property that is deemed to have been sold by HF to the Company being determined under the Regulations under Section 707 of the Code); and

(iii) As required by Regulations Sections 1.707-3(c)(2) and 1.707-8, the Company shall disclose to the IRS the Company's treatment of the HF Note payments as pre-formation expenses to the extent described in Section 3.3(c)(i) above.

Section 3.4 The allocations set forth in Sections 3.1(a) through 3.1(h) hereof (the “**Regulatory Allocations**”) are intended to comply with the requirements of Sections 1.704-1(b) and 1.704-2 of the Regulations and, in all events, shall be interpreted and applied consistently therewith.

Section 3.5 Revaluation Events and Capital Adjustments for Book Items.

Pursuant to the capital account maintenance rules of Section 1.704-1(b)(2)(iv) of the Regulations, effective immediately prior to any Revaluation Event, the Capital Account balance of each Member shall be adjusted to reflect the manner in which items of Profit or Loss, equal to the Unrealized Book Gain or Loss then existing with respect to each asset owned (to the extent not previously reflected in the Members’ Capital Accounts) by the Company would be allocated among the Members pursuant to Section 3.1 hereof if there were a taxable disposition of such property immediately prior to such Revaluation Event for its fair market value (as determined by the Managing Member taking Section 7701(g) of the Code into account). In all events with respect to all items of Company Profit and Loss, the balances of the Members’ Capital Accounts shall be adjusted solely for allocations of such items, as computed for book purposes, under Section 3.1 hereof and shall not be adjusted for allocations of correlative Tax Items under Section 3.3 hereof.

Section 3.6 Intent of Liquidating Distributions.

The parties intend that the allocation provisions of this Exhibit “A” shall produce final Section 704 Capital Account balances of the Member being equal to the distributions required pursuant to Section 5.2 of the Agreement. To the extent that the allocations required in this Exhibit “A” would fail to produce such Capital Account balances (determined at the close of each taxable year as provided in Section 3.1(i)), (a) such allocations provisions shall be amended by the Managing Members if and to the extent necessary to produce such result and (b) items of Company income, gain, loss, or deduction for prior open taxable years shall be reallocated among the Members to the extent it is not possible to achieve such result with allocations of Company income, gain, loss or deduction for the current taxable year and future taxable years. This Section 3.6 shall control notwithstanding any reallocation or adjustment of taxable income, taxable loss, or items thereof by the Internal Revenue Service or any other taxing authority.

Section 3.7 Curative Allocations.

The Regulatory Allocations are intended to comply with certain requirements of the Regulations. It is the intent of the Members that, to the extent possible, all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Company income, gain, loss or deduction pursuant to this Section 3.7. Therefore, notwithstanding any other provision of this Agreement (other than the Regulatory Allocations), the Managers shall make such offsetting allocations of Company income, gain, loss or deduction in whatever manner it determines appropriate so that, after such offsetting allocations are made, each Member’s Capital Account balance is, to the extent possible, equal to the Capital Account balance such Member would have had if the Regulatory Allocations were not part of this Agreement.

ARTICLE 4
OTHER TAX MATTERS

Section 4.1 Consistent Treatment.

The Members shall take positions with respect to Tax Items that are consistent with the positions taken by the Company with respect to the same Tax Items in all U.S. federal, state, local, or foreign tax returns, all notices to government bodies, and in any audit or other proceedings with respect to taxes.

Exhibit "A" - 12

EXHIBIT “B”

DEVELOPMENT MANAGEMENT AGREEMENT

(Attached)

Exhibit “B”

EXHIBIT "C"

INITIAL APPROVED OPERATING BUDGET

SKX Expansion Opinion of Cost	
General Liability Insurance	\$109,792
Difference in Conditions (Earthquake)	\$258,542
Property Taxes	\$1,073,500
POA	\$103,531
Repair, Replace & Maintenance	\$87,125
Annual:	\$1,632,489
Monthly:	\$136,041

Exhibit "C"

EXHIBIT "D"

HFPV REPRESENTATIONS AND WARRANTIES

The following constitute representations and warranties of HFPV to Skechers, HF and the Company, which are made as of the Effective Date, and also as of the Closing Date, and which may be enforced by any of Skechers, HF or the Company:

a. HFPV has all legal power, right and authority to convey, or cause to be conveyed, its entire right, title and interest in the HFPV Property to the Company pursuant to this Agreement and to execute and deliver, or cause the execution and delivery, of all documents required to consummate the transactions contemplated hereby.

b. All requisite action has been taken in connection with the conveyance of HFPV's interest in the HFPV Property to the Company pursuant to this Agreement and the execution of all documents required to consummate the transactions contemplated hereby.

c. The execution and delivery of the conveyance documents contemplated hereby do not require the consent or approval of any third party nor shall such execution and delivery result in a breach or violation of any applicable law or conflict with, breach, result in a default under or violate any contract or agreement to which HFPV is a party, or by which HFPV or the HFPV Property is bound.

d. Neither HFPV nor any HFPV Affiliate has received written notice or has actual knowledge of any pending or threatened actions, suits, arbitrations, claims or proceedings, at law or in equity, affecting the HFPV Property, or in which HFPV is, or will be, a party by reason of its interest in the HFPV Property.

e. Neither HFPV nor any HFPV Affiliate has received written notice of or has actual knowledge of any attachments, execution proceedings, assignments for the benefit of creditors, insolvency, bankruptcy, reorganization or other proceedings pending against HFPV.

f. Neither HFPV nor any HFPV Affiliate has entered into any contracts for the sale, exchange or other disposition of the HFPV Property, or any portion thereof, which are still in force and effect, nor do there exist any rights of first refusal, options or other rights of any other Person to purchase all or any portion of the HFPV Property.

g. HFPV holds fee simple title to the HFPV Property.

h. Neither HFPV nor any HFPV Affiliate has received written notice of or has actual knowledge of the commencement or intended commencement of any proceeding in eminent domain, or similar proceeding by any governmental authority which would affect the HFPV Property.

i. In accordance with California Health and Safety Code §25359.7, HFPV hereby gives HF, Skechers and the Company notice and informs them that HFPV has no knowledge of the release of any hazardous materials located on or beneath the HFPV Property, except to the extent (if any) reflected in any environmental reports delivered to Skechers and HFPV.

j. Neither HFPV nor any of its Affiliates has received any written notice or has other actual knowledge of any change contemplated in any laws, ordinances or restrictions affecting the HFPV Property, or any judicial or administrative action, or any action by adjacent landowners with respect to the HFPV Property, and neither HFPV nor any of its Affiliates has received any written notice

or has other actual knowledge or any other fact, circumstance or condition, financial or otherwise, which would materially present, limit, impede or render materially more costly the construction of the Project or the use or operation of the HFPV Property as contemplated by this Agreement.

k. To HFPV's and the HFPV Affiliates' actual knowledge, except as disclosed in any environmental reports delivered by HFPV to HF and Skechers, there are no acts, omissions, events, circumstances or conditions on, at, under or in connection with the HFPV Property that constitute a material violation of, or require remediation under, any applicable environmental law, including any pollution, contamination, degradation, damage or injury caused by, related to, arising from or in connection with the generation, use, handling, treatment, storage, disposal, discharge, emission or release of a hazardous material at the HFPV Property (an "**Environmental Condition**"). HFPV or an HFPV Affiliate has satisfied all material applicable governmental reporting requirements in connection with any known Environmental Condition existing on the HFPV Property. To HFPV's actual knowledge, there is no basis for a claim by any third party against HFPV in connection with an Environmental Condition at the HFPV Property.

l. Neither HFPV nor any HFPV Affiliate has entered into or is subject to any leases, occupancy agreements, licenses or similar agreements affecting the occupancy or possession of the HFPV Property.

m. The HFPV Property is not subject to any monetary liens or encumbrances (other than the lien of current real property taxes), or to any nonmonetary encumbrances which would have a material adverse effect on the ability of the Company to perform its obligations under this Agreement or Skechers Parent's ability to perform its obligations under the Lease, or which could result in the termination or extinguishment of the Lease.

EXHIBIT "E"

HF AND SKECHERS REPRESENTATIONS AND WARRANTIES

The following constitute representations and warranties of Skechers and HF (collectively, the "**Contributing Members**") to HFPV and the Company, which are made as of the Effective Date, and also as of the Closing Date, and which may be enforced by either HFPV or the Company. The representations and warranties of the Contributing Members hereunder are several and not joint, and neither HF nor Skechers shall be liable for the breach of any representation or warranty of the other.

a. Neither Contributing Member nor any Affiliate of such Contributing Member has received written notice or has actual knowledge of any pending or threatened actions, suits, arbitrations, claims or proceedings, at law or in equity, affecting the HF-SKX Property, or in which such Contributing Member is, or will be, a party by reason of such Contributing Member's interest in the HF-SKX Property.

b. Neither the Contributing Member nor any Affiliate of such Contributing Member has received written notice of or has actual knowledge of any attachments, execution proceedings, assignments for the benefit of creditors, insolvency, bankruptcy, reorganization or other proceedings pending against such Contributing Member.

c. There are no contracts for the sale, exchange or other disposition of the HF-SKX Property, or any portion thereof, which are still in force and effect, nor do there exist any rights of first refusal, options or other rights of any Person to purchase all or any portion of the HF-SKX Property from SKX LLC.

d. Immediately prior to the execution of this Agreement, each Contributing Member held a 50% Company Interest, and the Company holds fee simple title to the HF-SKX Property.

e. Neither Contributing Member nor any Affiliate of such Contributing Member has received written notice of or has actual knowledge of the commencement or intended commencement of any proceeding in eminent domain, or similar proceeding by any governmental authority which would affect the HF-SKX Property.

f. In accordance with California Health and Safety Code §25359.7, each Contributing Member hereby gives HFPV and the Company notice and informs them that such Contributing Member has no knowledge of the release of any hazardous materials located on or beneath the HF-SKX Property, except to the extent (if any) reflected in any environmental reports delivered to HFPV.

g. Neither Contributing Member nor any of its Affiliates has received any written notice or has other actual knowledge of any change contemplated in any laws, ordinances or restrictions affecting the HF-SKX Property, or any judicial or administrative action, or any action by adjacent landowners with respect to the HF-SKX Property, and neither the Contributing Member nor any of its Affiliates has received any written notice or has other actual knowledge or any other fact, circumstance or condition, financial or otherwise, which would materially present, limit, impede or render materially more costly the construction of the Project or the use or operation of the HF-SKX Property as contemplated by this Agreement.

h. To each Contributing Member's and such Contributing Member's Affiliates' actual knowledge, except as disclosed in any environmental reports delivered to HFPV, there are no acts, omissions, events, circumstances or conditions on, at, under or in connection with the Property that

constitute a material violation of, or require remediation under, any applicable environmental law, including any pollution, contamination, degradation, damage or injury caused by, related to, arising from or in connection with the generation, use, handling, treatment, storage, disposal, discharge, emission or release of a hazardous material at the HF-SKX Property (an “**Environmental Condition**”). SKX LLC has satisfied all material applicable governmental reporting requirements in connection with any known Environmental Condition existing on the HF-SKX Property. To each Contributing Member’s actual knowledge, there is no basis for a claim by any third party against SKX LLC or either Contributing Member in connection with an Environmental Condition at the Property.

i. There are no leases, occupancy agreements, licenses or similar agreements affecting the occupancy or possession of the HF-SKX Property.

j. The HF-SKX Property is not subject to any monetary liens or encumbrances (other than the lien of current real property taxes), or to any nonmonetary encumbrances which would have a material adverse effect on the ability of the Company to perform its obligations under this Agreement or Skechers Parent’s ability to perform its obligations under the Lease, or which could result in the termination or extinguishment of the Lease.

DEVELOPMENT MANAGEMENT AGREEMENT

THIS DEVELOPMENT MANAGEMENT AGREEMENT (this "*Agreement*") is made and entered into effective as of the ____ day of _____, 2019 (the "*Effective Date*"), by and between HF LOGISTICS-SKX T2, LLC (hereinafter, "*Owner*"); and HFC HOLDINGS, LLC, a Delaware limited liability company ("*Development Manager*").

RECITALS:

A. Owner is a Delaware limited liability company formed pursuant to that certain Amended and Restated Limited Liability Company Agreement (as further amended from time to time, the "*LLC Agreement*") dated of even date herewith between HF Logistics I, LLC, a Delaware limited liability company and Highland Fairview Partners V, a Delaware general partnership (together, the "*HF Member*"), and Skechers R.B., LLC, a Delaware limited liability company ("*Skechers Member*").

B. Section 7.5 of the LLC Agreement provides that the Owner shall enter into this Agreement.

C. The Owner has caused the Project Architect to prepare the Approved Plans for the Improvements (the construction of the Improvements on the Land in accordance with the Approved Plans is herein called the "*Project*").

D. The Owner has approved the Development Budget for the Project.

E. Owner and Development Manager intend that the Development Manager perform or cause to be performed the Development Services and receive the Development Manager Fee, in accordance with this Agreement.

AGREEMENT:

NOW, THEREFORE, in consideration of the foregoing (all of which is incorporated in this Agreement by this reference) and other good and valuable consideration, receipt and sufficiency of which are hereby acknowledged, Owner and Development Manager hereby agree as follows:

ARTICLE 1

DEFINITIONS

Section 1.1 Certain Definitions. As used in this Agreement, the following terms have the following meanings:

"*Added Costs*" has the meaning given to that term in Section 4.1.

"*Agreement*" has the meaning given to that term in the introductory paragraph.

"*Applicable Laws*" means all applicable statutes, ordinances, rules, regulations, codes and interpretations by all federal, state and local governmental authorities having jurisdiction over the Project.

"*Approval by (or of) Owner*" means to be approved in writing by Owner.

"*Approved Plans*" has the meaning given to that term in Section 2.4.

"*Bid Documents*" has the meaning given to that term in Section 2.7(e)(i).

“Building” means the building which constitutes part of the Improvements.

“Close-Out” has the meaning given to that term in Section 2.11(a).

“Completion Notice” means a notice from Development Manager (or the General Contractor) to the Owner that Substantial Completion has occurred for the Improvements, as described in Section 2.10(a).

“Completion of the Project” has the meaning given to that term in Section 2.11(c).

“Construction Loan” means the loan to be made to Owner by Lender, the proceeds of which shall be used to construct the Project.

“Contract Documents” means the Approved Plans, the Project Construction Contract, and other documents governing the performance obligations of the General Contractor.

“Development Approvals” has the meaning given to that term in Section 2.7(g).

“Development Budget” has the meaning given to that term in Section 2.3.

“Development Budget Amendment” has the meaning given to that term in Section 2.8(f).

“Development Manager” has the meaning given that term in the introductory paragraph.

“Development Manager Fee” has the meaning given to that term in Section 5.1.

“Development Services” has the meaning given to that term in Section 2.1.

“Due Care” means to act in good faith, within the scope of one’s authority, with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent real estate professional experienced in such matters would use in the conduct of the development of an industrial/warehouse building of the type and quality envisioned in the Approved Plans.

“Effective Date” has the meaning given to that term in the introductory paragraph.

“Entitlement Requirements” has the meaning given to that term in Section 2.7(a)(i).

“Force Majeure” has the meaning given to that term in Section 4.2.

“General Contractor” means the general contractor selected by the Development Manager and engaged by Owner to construct the Project.

“Hard Costs” means those Project Costs so designated in the Development Budget.

“Hazardous Materials” means any hazardous, toxic or dangerous waste, substance or material, pollutant or contaminant, as defined for purposes of the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. Section 9601 et seq.), as amended, or the Resource Conservation and Recovery Act (42 U.S.C. Section 6901 et seq.), as amended, or any other federal, state or local law, ordinance, rule or regulation applicable to the Land or the Project, or any substance which is toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic, or otherwise hazardous, or any substance which contains gasoline, diesel fuel or other petroleum hydrocarbons, polychlorinated biphenyls (PCBs), or radon gas, urea formaldehyde, asbestos or lead.

“Improvements” means an approximately 750,000 rentable square foot Building and other improvements to be constructed by Owner on the Land in accordance with the Lease and the Approved Plans.

“Indemnified Parties” has the meaning given to that term in Section 4.3.

“Land” means the tract of land which is the subject of the Lease and upon which the Project will be constructed.

“Lease” means that certain Lease of even date herewith between Owner, as landlord, and Skechers Parent, as tenant, as amended.

“Lender” means the lender which extends the Construction Loan to Owner, or any future holder of the note and other documents which evidence the Construction Loan.

“LLC Agreement” has the meaning given that term in the Recitals.

“Owner” has the meaning given to that term in the introductory paragraph.

“Party” means either Owner or Development Manager.

“Project” has the meaning given that term in the Recitals.

“Project Architect” means [HPA Architects].

“Project Construction Contract” has the meaning given to that term in Section 2.7(e)(v).

“Project Costs” means all costs of construction of the Project (Hard Costs and Soft Costs) as reflected in the Development Budget.

“Project Engineers” means the mechanical, structural and electrical engineers’ engaged in connection with the Project.

“Project Manager” has the meaning given to that term in Section 3.2.

“Project Schedule” has the meaning given to that term in Section 2.3.

“Project Team” has the meaning given to that term in Section 2.2.

“Punchlist” has the meaning given to that term in Section 2.10(c).

“Punchlist Items” means any items necessary to complete the Improvements in compliance with Applicable Laws, the Approved Plans and the other requirements of this Agreement after receipt of the Completion Notice (it being understood that the nature of the Punchlist Items is such that they will, not materially interfere with the use, occupancy or enjoyment of the Building by Skechers Parent as tenant under the Lease).

“Skechers Parent” means Skechers USA, Inc., a Delaware corporation.

“Soft Costs” means those Project Costs so designated in the Development Budget.

“Standard of Quality” has the meaning given to that term in Section 2.5.

“*Statement of Project Costs*” has the meaning given to that term in Section 2.11(b).

“*Substantial Completion*” has the meaning set forth in the Lease.

Section 1.2 Other Definitions. Other terms defined in this Agreement have the meanings so given them. Capitalized terms used but not defined herein shall have the same meaning herein as in the LLC Agreement.

Section 1.3 Terminology. Unless the context of this Agreement clearly requires otherwise, (a) pronouns, wherever used herein, and of whatever gender, shall include natural persons and corporations, partnerships, limited liability companies and entities of every kind and character, (b) the singular shall include the plural wherever and as often as may be appropriate, (c) the word “includes” or “including” shall mean “including without limitation”, and (d) the words “hereof”, “herein”, “hereunder”, and similar terms in this Agreement shall refer to this Agreement as a whole and not any particular section or article in which such words appear. The section, article, and other headings in this Agreement are for reference purposes and shall not control or affect the construction of this Agreement or the interpretation hereof in any respect. Article, section, subsection, and exhibit references are to this Agreement unless otherwise specified. All exhibits attached to this Agreement constitute a part of this Agreement and are incorporated herein.

ARTICLE 2

SCOPE OF SERVICES

Section 2.1 General. Development Manager shall perform, using Due Care, the services described in this ARTICLE 2 (the “*Development Services*”) required for the development of the Project. Development Manager will coordinate with the Owner with respect to the matters for which the Owner is involved in accordance with this Agreement and Development Manager will coordinate with the Skechers Member with respect to matters for which the Skechers Member is involved in accordance with this Agreement. It is understood that any decisions, approvals, consents or other rights or obligations of the Owner under this Agreement shall be subject to the provisions of the LLC Agreement which allocate the authority to make such decisions, approvals, consents or to exercise such rights or obligations between the Skechers Member and the HF Member, and nothing in this Agreement is intended to modify or amend such provisions of the LLC Agreement.

Section 2.2 Project Team. Development Manager shall coordinate and provide leadership for the development, design and construction team (the “*Project Team*”) for the Project. The Project Team shall consist of Development Manager, Owner, the Project Architect, the Project Engineers and the General Contractor, and others engaged by Owner to work on the development, design or construction of the Project.

Section 2.3 Development Budget and Project Schedule. Attached hereto marked **Exhibit "A"** is a development budget (as amended, the "**Development Budget**" and which includes any Added Costs) and a project schedule (as amended, the "**Project Schedule**") for the Project. It is understood and agreed that the Development Budget contains estimates of the costs of construction of the Project (including both the costs of the Landlord Improvements and the Tenant Improvements, as such terms are defined in the Lease), and that such costs of construction may change based upon the actual time of construction, final specifications, tariffs and regulatory changes. Landlord has no control over the cost of labor and material, competitive bidding, or market conditions, and the opinion of costs is based on consultations with experienced general contractors and adjusted to accommodate factors known at the time. Development Manager shall revise the Development Budget and the Project Schedule from time to time, but except as set forth in **Section 4.1**, no amendment or modification of the Development Budget or the Project Schedule shall be effective until Approved by Owner and approved by Skechers Member. Notwithstanding anything herein to the contrary, the Development Manager shall not be responsible if Completion of the Project does not occur by the date set forth in the Project Schedule, except as a result of the gross negligence or the willful misconduct of Development Manager.

Section 2.4 Plans. Development Manager has coordinated the preparation of the plans and specifications for the Project which have been approved by both the tenant under the Lease, and Owner (the "**Approved Plans**"). The Approved Plans may not be amended or modified in any material respect without the approval of Owner and the approval of the tenant under the Lease.

Section 2.5 Standard of Quality. Development Manager has prepared and Owner has approved detailed general and specific standards for the overall development of the Project, as set forth in the Approved Plans and covering site use, selection of materials, building systems, landscaping, parking and other features related to development of the Project (the "**Standard of Quality**").

Section 2.6 Compliance With Applicable Laws. Development Manager shall have the Project Architect (or other appropriate professional) confirm that the Approved Plans for the Project satisfy the Standard of Quality, and are in substantial compliance in all material respects with the requirements of the Construction Loan and all Applicable Laws.

Section 2.7 Predevelopment Phase. Subject to the general provisions of **Section 2.1** through **Section 2.6** above, Development Manager shall perform the following predevelopment phase services, to the extent that it has not already done so:

(a) **Initial Planning.** Development Manager shall:

(i) Ascertain the significant subdivision, zoning, building code and other governmental compliance issues for the Project (collectively, the "**Entitlement Requirements**");

(ii) Provide to Owner soils reports, environmental reports and other reports and studies in Development Manager's possession in connection with the Project;

(iii) Obtain preliminary site plans, surveys, topographical surveys and schematic designs and elevations for the Project; and

(iv) Coordinate preparation and submission of materials, plans and information as necessary under the Entitlement Requirements, and coordinate the Project development requirements of governmental agencies.

(b) Schematic Design. Development Manager shall coordinate the Project Architect's preparation of schematic design drawings for the Project and assist in evaluating design alternatives in light of Owner's construction, timing, function and marketing goals and objectives.

(c) Design Development. Development Manager shall review all plans and specifications prepared by the Project Architect and evaluate such plans and specifications in light of the approved design concept for the Project, Owner's cost and time constraints and Owner's objectives.

(d) Working Drawings. Development Manager shall:

(i) Coordinate the preparation by the Project Architect of the construction drawings; and

(ii) Make recommendations regarding alternative design and construction solutions whenever design details appear to adversely affect construction feasibility, the Development Budget or the Project Schedule or to deviate from the Approved Plans.

(e) Contractor Bidding and Selection. Development Manager shall:

(i) Coordinate the preparation of the "**Bid Documents**," which shall consist of, among other things, the Approved Plans, construction drawings (to the extent completed), proposed form of Project Construction Contract and instructions to bidders.

(ii) Make recommendations for prequalification criteria for bidders, including any need for performance bonding of any bidder if selected as a contractor, and develop a bid list for prospective contractors and subcontractors.

(iii) Develop competitive bidding procedures and requirements.

(iv) If appropriate, conduct prebid conferences to familiarize bidders with the Bid Documents and any special or unique systems, materials, methods or requirements.

(v) Prior to commencement of construction of any Improvements, including any site work, the General Contractor and the Owner will enter into a guaranteed maximum cost construction contract for the Project (the "**Project Construction Contract**"). Development Manager shall assist Owner in negotiating the Project Construction Contract and advise Owner as to holdbacks or retentions on contractor payments and other contract provisions to be incorporated in the Project Construction Contract so that Development Manager can properly manage the General Contractor's performance.

(vi) Provide recommendations regarding the General Contractor's proposed temporary Project facilities, equipment, materials and services during construction and the assignment of responsibilities relating to same.

(vii) Conduct pre-award conferences with the successful bidders, prepare and negotiate the Project Construction Contract on terms and conditions acceptable to Owner (for approval and execution by Owner) and advise Owner regarding subcontractors and major suppliers for the Project.

(f) Payment of Project Architect and Project Engineers. Development Manager shall review and advise Owner with regard to all requests for payment from the Project Architect, the

Project Engineers and any other consultants having contracts with Owner or Development Manager for the Project.

(g) Development Approvals. Development Manager shall assist Owner, the General Contractor, the Project Architect and the Project Engineers with any governmental authorities having jurisdiction over the Project and shall process and obtain all governmental and third party approvals required in connection with the Project, including all approvals, permits, and authorizations necessary for development, construction, use or occupancy of the Project, the subdivision of the land, construction, use and occupancy of the Project, establishment of communities facilities districts, establishment of a property owner's association and related documentation, and all necessary public improvement agreements, easements, dedications or other similar agreements required in connection with the Project (collectively, the "***Development Approvals***").

(h) Meetings. Development Manager shall meet with a representative of Owner on a regular basis, to update Owner on the status of the Project and apprise Owner of major events and issues anticipated by Development Manager with respect to the Project.

(i) Contracts with Project Architect and the Project Engineers. Development Manager shall negotiate on Owner's behalf (for approval and execution by Owner) and advise Owner with respect to service contracts, including, but not limited to, contracts with the Project Team and other consultants, if any, as are necessary or appropriate in order to construct the Project.

(j) Development Easements. Upon Development Manager's request, Owner shall enter into and grant such development easements, rights of way and other similar encumbrances affecting title to the Project to the extent reasonably required for or in connection with the orderly development of the Project.

Section 2.8 Construction Phase. The "Construction Phase" shall commence at the time designated in the Project Schedule. Subject to the general provisions of Section 2.1 through Section 2.6 above, and in addition to services described under Section 2.7, which (to the extent applicable) continue throughout the term of this Agreement, Development Manager shall perform the following construction phase services, to the extent that it has not already done so:

(a) Critical Path Schedule. Development Manager shall direct the General Contractor (and others, where appropriate) to prepare and update a critical path schedule for completion of the Project. In the event of delays impacting the critical path schedule, Development Manager shall make recommendations for corrective action by the General Contractor.

(b) Site Preparation. Development Manager shall monitor site work for the Project, as well as any environmental remediation to be performed upon the Land.

(c) Applications for Payment Requirements Development Manager shall (i) prepare procedures for the review and, subject to the provisions in subparagraph (o), processing of applications for payment received from the General Contractor, (ii) assure that permitted holdbacks or retentions are maintained upon payments to the General Contractor, (iii) confirm that applications for payment are complete and correct and accompanied by all required documents, (iv) obtain the Project Architect's certification of each application for payment and (v) make recommendations to Owner concerning payment of applications for payment and other Project Costs. Development Manager shall prepare and coordinate orderly procedures, consistent with the requirements of the Construction Loan, for payment of all Project Costs.

(d) Certificate. Whenever certificates of the Project Architect or the Project Engineers are required in accordance with the Construction Loan Agreement, Development Manager shall coordinate delivery of such certificates to assure that necessary certificates are received.

(e) Construction Administration. Development Manager will provide overall coordination of development of the Project, including the following:

(i) Meetings. Schedule and conduct (not less than once per month) job-site meetings to discuss construction procedures, progress and scheduling with General Contractor and the Project Architect. Development Manager shall prepare or direct the General Contractor or Project Architect to prepare minutes of construction meetings and distribute such meeting minutes to the Project Team.

(ii) Contract Performance. Monitor the performance, assure maintenance of applicable holdbacks and assist in the enforcement (short of instituting any legal proceeding) of the obligations of the General Contractor under the terms of the Project Construction Contract.

(iii) Bonds. If required under the terms of the Construction Loan, prior to the General Contractor performing Work (as defined in the Project Construction Contract), Development Manager shall obtain from the General Contractor both a General Contractor's payment bond and a performance bond in the full value of the Project Construction Contract issued by a corporate surety or sureties reasonably satisfactory to Owner or the Lender, as applicable, naming Owner or the Lender, as applicable, as a beneficiary.

(iv) General Contractor Identification. Make timely recommendations to Owner for the employment or dismissal of the General Contractor and all attorneys, architects, engineers, consultants and other professionals and personnel as are necessary or appropriate to construct and complete the Project.

(v) Lien Claims. Obtain from the General Contractor the negotiation of settlements with all material mechanics, materialmen and subcontractors, and if any mechanic's, materialman's or similar lien and/or stop notices are filed with respect to the Project, take such action (short of instituting legal proceedings) which is within the power of Development Manager, or cause the General Contractor to take such lawful action, as is appropriate to contest or settle and discharge such lien or liens and/or stop notices and to remove the same by bonding or otherwise within thirty (30) days after receiving notice of the filing thereof.

(vi) Warranty Corrections. Cause to be enforced (short of instituting any legal proceeding) all warranties and guaranties of the General Contractor or materialmen with a view to correcting any known or identified defects in the construction of the Project or in the installation or operation of any equipment or fixtures therein, at the expense of the General Contractor or materialmen and cause inspections of the completed Project to be made by the Project Architect with a view to discovering any such defects.

(vii) Monitor Work. Monitor the performance of work by the Project Team concerning matters relating to the Project. If the Development Manager determines that any members of the Project Team are not in compliance with the terms and conditions of their respective agreements or contracts with Owner, Development Manager shall notify Owner of such noncompliance and the nature thereof and of Development Manager's recommendations with respect thereto. Any legal action to be taken with respect to such noncompliance shall be entirely at the discretion of and under the direction of Owner. In connection with monitoring the work, Development Manager shall not cause or knowingly

permit any Hazardous Materials to be brought upon, kept or used in or about the Land or Project except to the extent such Hazardous Materials: (A) are necessary for the construction of the Project, (B) are required by the Approved Plans, and (C) are used, stored and disposed of in compliance with all Applicable Laws.

(viii) Accidents. Notify Owner of any material accidents or damage or injury claims arising from work on the Project promptly after Development Manager has actual knowledge of such events.

(ix) Shop Drawings and Other Submittals. Coordinate the Project Architect's review and approval of shop drawings, product data and other submittals by the General Contractor. Coordinate the delivery by the General Contractor to Owner of the guaranties, warranties, releases, affidavits, bonds, manuals, insurance certificates and other items required by the Project Construction Contract.

(x) Utilities. Coordinate the obtaining and installation of all utilities and similar services required for the Project.

(f) Change Orders. Development Manager shall coordinate the negotiation and processing of all change orders to the Project Construction Contract for Approval by Owner. Copies of all change orders will be promptly provided to Skechers Member. The Development Budget and/or Project Schedule, as applicable, will be revised to reflect Added Costs, if any, resulting from change orders which are Approved by Owner. Development Manager shall process and administer change orders. Owner and agrees to reasonably and timely consider and act upon change orders and resulting changes in the Development Budget (each, a "***Development Budget Amendment***") and the Project Schedule (each, a "***Project Schedule Amendment***"). Notwithstanding the foregoing, Owner need not give approval of any change order unless (i) the change is permitted under the Construction Loan, and conforms to the Standard of Quality, and (ii) the aggregate estimated total costs of the Project following such change order, Development Budget Amendment do not exceed (and, prior to Completion of the Project, are not reasonably estimated to exceed) the amount available to pay such costs under the Development Budget immediately prior to such Development Budget Amendment therefor (as a result of available funds in the contingency line item or realized cost savings in another line item in the Development Budget), or alternatively either the HF Member or the Skechers Member agrees to fund such excess costs (as required under the LLC Agreement). Subject to approval of the Lender, Development Manager may allocate any contingency line item (Hard Cost or Soft Cost) in the Development Budget and realized cost savings to other line items within the Development Budget.

(g) Construction Phase Reporting. Development Manager shall furnish to Owner and Skechers Member reports, not less frequently than monthly, containing (i) a status of construction; (ii) a comparison of the Development Budget (which shall be presented in such a fashion that it shows the original Development Budget and all changes thereto, including Added Costs, if any) on a major line item basis to construction costs by trade incurred through the date of the report and a comparison of the Project Schedule to the work actually completed through the date of the report; (iii) a summary of change orders made during the month covered by the report; (iv) any revision to the Project Schedule and/or Development Budget made during the month covered by the report; (v) an estimate of the costs to be incurred in completing the Project and (or) any other information reasonably requested by Owner or Skechers Member. Reports will be provided on a timely basis consistent with any Construction Loan requirements.

(h) Technical Inspections. In instances where technical inspection and testing unless are being provided by the Project Architect or other third party (which shall be a Project Cost paid by

Owner), Development Manager shall assist the Project Architect or other third parties and the General Contractor in coordinating such technical inspection and testing. All technical inspection reports will be in a format approved by and will be reviewed by Development Manager.

(i) Contract Enforcement. When appropriate, Development Manager shall advise and make recommendations with respect to the exercise of Project Construction Contract prerogatives such as accelerating the work when scheduled goals are in jeopardy or requiring that work found to be defective be repaired or replaced.

(j) Construction Loan. Development Manager shall (i) act as Owner's agent in administering Owner's responsibilities and assuring compliance by Owner with the terms and provisions of the Construction Loan documents, and (ii) subject to Owner's cooperation with Development Manager, coordinate the timely delivery of all necessary documents and information to obtain monthly advances of proceeds of the Construction Loan to pay Project Costs in accordance with the Construction Loan documents, including the General Contractor's approved monthly applications for payment, interest on the Construction Loan, fees and other Project Costs reflected in the Development Budget.

(k) Insurance of Project Architects and Engineers. Development Manager shall confirm that the Project Architect, the General Contractor and all Project Engineers obtain all insurance policies required under their respective contracts, and shall obtain appropriate certificates of insurance from each as required.

(l) Claims. Development Manager shall keep track of delays in progress of the work and perform a preliminary evaluation of the contents of all claims (including claims for increases in the guaranteed maximum cost under the Project Construction Contract or extensions of time), obtain the factual information concerning the claim, review the time/cost impact of the alleged claim and make recommendations as to Owner's position to the General Contractor or applicable subcontractor. Development Manager shall also coordinate the submission of all insurance claims (whether by the General Contractor, Development Manager, Owner or others) and shall process all paperwork relating to such claims.

(m) Preparation of Punchlist. Development Manager shall assist the General Contractor, the Project Architect and the Project Engineers in scheduling inspections (which shall include Skechers Parent, as tenant under the Lease) to determine the date of Substantial Completion (or Substantial Completion of phases, if the Improvements are completed in phases), and the preparation of the Punchlist. Development Manager shall assist the Project Architect in reviewing the Punchlist Items and interface with the Project Architect, the General Contractor, and Skechers Parent, as tenant under the Lease, in coordinating completion of all Punchlist Items. Development Manager shall monitor the General Contractor's completion of all Punchlist Items.

(n) Shop Drawings. Development Manager shall monitor the Project Architect's review of shop drawings, product data, sample and submittals, and will use reasonable efforts to cause the Project Architect to respond in a timely fashion so as not to cause delay in construction of the Project.

(o) Bank Accounts/Withdrawals.

(i) Owner shall establish a bank account into which shall be deposited sufficient funds to timely pay Project Costs as they are incurred (including deposits of proceeds of the Construction Loan advanced by the Lender). Designated representatives of the Development Manager shall be the signatories on such bank account, and withdrawals from such bank account (which includes checks, wire transfers or other withdrawals) may be made upon the signature of any one of such

designated representatives. Designated representatives of Skechers Member shall also be signatories on such bank account, but shall not exercise any right to withdraw funds from such bank account unless and until the HF Member has been removed as a Managing Member under the LLC Agreement. Notwithstanding the foregoing, Development Manager covenants that it shall diligently and prudently coordinate and administer expenditures from the bank account in accordance with the Development Budget and that all expenditures from the bank account shall be made in strict conformance with the Development Budget in all respects (including the nature, amount and timing of each such expenditure).

(ii) From time to time, but not more frequently than once each month (except under unusual circumstances) Developer Manager shall submit to Skechers Member a detailed schedule of all withdrawals which Development Manager has approved for the payment of Project Costs, together with reasonable back-up documentation such as invoices or statements for labor and/or material for which payment will be made.

Section 2.9 Affiliate Contracts. Without the express prior written consent of Owner, Development Manager shall not enter into any contract with an affiliate of Development Manager or HF Member in connection with the Project, except to the extent permitted under the LLC Agreement.

Section 2.10 Occupancy; Punchlist.

(a) Upon Substantial Completion of the Project, the Development Manager shall certify to the Owner (or cause the General Contractor to certify to the Owner) in AIA form G-704 or substantial equivalent: (i) that, to its knowledge, the Substantial Completion of the Project has been achieved, in conformity with the requirements of the Project Construction Contract, and in compliance in all material respects with Applicable Laws, all Development Approvals, the Standard of Quality and the Construction Loan documents, free of liens or outstanding claims for payment for labor (excepting only liens or claims of liens relating to matters that may be the subject of legitimate disputes between the Developer and the General Contractor or subcontractors performing work on the Project, provided the same have been bonded off or insured over to the reasonable satisfaction of the Owner and the Lender by Development Manager), services, materials or supplies, subject only to completion of the Punchlist Items; and (ii) that, to its knowledge, the total cost to complete any remaining Punchlist Items on the Punchlist is reflected on the Statement of Project Costs.

(b) Upon Substantial Completion of the Project, Development Manager shall apply for, or have the General Contractor apply for, and obtain all required occupancy permit(s) for the Improvements which are required to be obtained by Owner pursuant to the Lease.

(c) Within five (5) business days following the Owner's receipt of the Completion Notice with respect to the Improvements (or portions thereof, if completed in phases), Development Manager and the Owner (and, if requested by Owner, the Project Architect and such other consultants as Owner shall desire), together with representatives of Skechers Parent, as tenant under the Lease, will conduct a walk-through inspection of the Improvements confirming that such Improvements have achieved Substantial Completion in accordance with the requirements of this Agreement, the Lease and the Contract Documents, and to jointly prepare a list (the "**Punchlist**") of the Punchlist Items needing correction or completion. Development Manager shall cause to be completed the Punchlist Items for the Improvements within forty-five (45) days following delivery of the Completion Notice for the Improvements, subject to delay for items which due to season or the nature of the item are not practical to complete and which do not interfere in any material respect with the use or enjoyment of the Building by the tenant under the Lease.

Section 2.11 Close-Out.

(a) Upon Substantial Completion of the Project, Development Manager shall give notice to Owner and Skechers Member. Within thirty (30) days following delivery of such notice (or, with respect to items that cannot reasonably be expected to be completed within such thirty (30) day period, as soon thereafter as Development Manager can, with the exercise of due diligence, complete such items), Development Manager shall complete the following (herein sometimes referred to as “**Close-Out**” of the Project), (i) deliver to Owner and Skechers Member a Statement of Project Costs prepared by Development Manager and certified as true and correct to its knowledge by Development Manager; (ii) prepare or cause to be prepared and delivered to the Owner all certificates and documents that Owner and/or Development Manager are required to deliver to the Lender in accordance with the Construction Loan documents; (iii) prepare or cause to be prepared and delivered to Owner such other documents and information as Development Manager may be obligated to deliver to Owner in connection with the Substantial Completion of the Project; (iv) monitor the compliance of the Project Architect, the Project Engineers, and the General Contractor, as appropriate, with the provisions of their respective contracts with the Owner relating to the Close-Out of the Project; and (v) without limiting the foregoing, ensure that each of the following shall have been completed and delivered to Owner:

- (i) As built drawings and specifications.
- (ii) Change orders.
- (iii) Reports including, but not limited to, soils reports, concrete reports, equipment testing and balancing reports, termite reports, etc.
- (iv) Operation maintenance manuals for all equipment.
- (v) Certifications and test results required in accordance with Applicable Laws.
- (vi) Warranties or guaranties, including but not limited to the roof warranties, HVAC warranties, plumbing warranties, etc.
- (vii) Keys for all locks.
- (viii) Progress photos taken at least monthly throughout the Project.
- (ix) Completion Notices as described in Section 2.10(a) above.
- (x) All necessary governmental and municipal permits or approvals (including certificates of occupancy) for the Improvements.
- (xi) Final lien waivers from the General Contractor and all material subcontractors and suppliers supplying services or material in connection with the construction and equipping of the Project (excepting only liens or claims relating to matters that may be the subject of legitimate disputes between the Development Manager or Owner, on the one hand, and the General Contractor or subcontractors performing work on the Project or any portion thereof, on the other hand, provided the same have been bonded off or insured over to the reasonable satisfaction of the Owner and the Lender).

(xii) An “ALTA-ACSM As Built” survey of the Project completed by a licensed surveyor, certified as to accuracy.

(xiii) The Punchlist, including for each item shown thereon, the estimated time and cost of completing such item.

(b) For purposes hereof, the “*Statement of Project Costs*” shall mean a statement of the total of all Project Costs incurred in connection with the completion of the Project, and also including all items on the Punchlist. Development Manager shall prepare and deliver to Owner a reconciliation of the Statement of Project Costs with the Development Budget, both in the aggregate and for each major line item in the Development Budget.

(c) Development Manager acknowledges that the Project shall not be deemed complete until Development Manager has completed the Closeout of the Project, including satisfaction of all of the conditions set forth in this Section 2.11, completion of all items on the Punchlist, and satisfaction of all other conditions to completion set forth in the Construction Loan Agreement (herein referred to as “*Completion of the Project*”). Upon Completion of the Project (or if this Agreement is otherwise terminated), to the extent not previously done, Development Manager shall do, and execute and/or deliver to Owner (and Skechers Member with respect to item (i)) the following with respect to the Project, all of which shall be done, executed and/or delivered as promptly as is reasonably practicable:

(i) Prepare a final accounting of all funds possessed by or under the coordination or control of Development Manager, reflecting receipts and disbursements in connection with the Project through the date of Completion of the Project or termination, as applicable.

(ii) Return the balance of monies of Owner held by Development Manager.

(iii) Execute and/or deliver all documents and instruments necessary to transfer to Owner or its nominee, to the extent transferable, all permits held by Development Manager necessary to construct the Project.

(iv) Take such other actions as Owner may reasonably require to assure an orderly transition of management of the completion of the Project.

ARTICLE 3

TERM OF AGREEMENT AND PERSONNEL

Section 3.1 Term. The term of this Agreement shall commence upon the date of this Agreement and shall continue, unless sooner terminated in accordance herewith, until Completion of the Project.

Section 3.2 Personnel. Development Manager shall designate an individual to serve as the project manager (the “*Project Manager*”). Development Manager shall ensure that the Project Manager shall be competent to perform the services required as such.

(a) Project Manager shall devote such portion of his or her time, efforts and management skills to the Project using Due Care as is reasonably necessary and appropriate to complete the Project, subject to Force Majeure, in accordance with the Project Schedule and Development Budget.

(b) Any communication given to the Project Manager by Owner shall be deemed to have been given to Development Manager.

(c) Development Manager will also provide such personnel and assistants, including professional and secretarial/clerical support staff, as may be necessary to perform its Development Services in a diligent and timely manner. Development Manager shall be responsible out of its own funds for all salaries, overhead, costs and expenses related to the employment of the Project Manager and any other personnel by Development Manager, which salaries, overhead, costs and expenses shall expressly not be a reimbursable item. All persons, other than independent contractors, employed by Development Manager in the performance of its responsibilities hereunder shall be exclusively controlled by and shall be the employees of Development Manager and not of Owner, and Owner shall have no liability, responsibility or authority with respect thereto.

ARTICLE 4

DEVELOPMENT BUDGET AND LIABILITY OF DEVELOPMENT MANAGER

Section 4.1 **Increases in Development Budget.** Subject to any restrictions set forth herein or in the LLC Agreement regarding increases in the Development Budget, the Development Budget will automatically be increased from time to time to include therein all of the following (collectively, the “*Added Costs*”):

- (a) Increases in the Project Costs resulting from change orders which are Approved by Owner;
- (b) Increases in the Project Costs incurred in connection with changes in the scope of the Project caused by changes in Applicable Laws that are required by such Applicable Laws to be complied with;
- (c) Increases in Project Costs due to expressly permitted increases in the guaranteed maximum cost under the Project Construction Contract;
- (d) Increases in Project Costs due to (i) Force Majeure (as defined herein); or
- (e) Increases in Project Costs pursuant to Section 4.6 below.

Increases in Project Costs include (without duplication) those increases which result from time delays due to the occurrence of any of the foregoing events ((a)-(d)).

Section 4.2 For purposes hereof, the term “*Force Majeure*” means the following events or circumstances, to the extent that they cause the delay of performance of any obligation hereunder by Development Manager and (except as otherwise provided below) that could not, through the use of Due Care by Development Manager, be anticipated and mitigated: (a) strikes, lockouts or picketing; (b) riot, civil commotion, insurrection and war; (c) fire or other casualty, accidents, acts of God or public enemy; (d) unusually adverse weather conditions not reasonably expected for the location of the Project and the time of year in question, or (e) any other similar event which delays the Completion of the Project and which is beyond the reasonable control of the Development Manager. However, in no event shall any of the following be deemed to constitute Force Majeure: (i) failure to obtain financing for or, failure to refinance, the purchase, construction or ownership of the Project; (ii) inability to pay when due monetary sums; or (iii) the acts or omissions of the Development Manager or any other Person acting by, through or

under the Development Manager (including without limitation, the acts or omissions of such Person that cause the event of Force Majeure). If the Development Manager shall be delayed, hindered or prevented from performance of its obligation to achieve Completion of the Project in accordance with this Agreement by reason of Force Majeure, the time for such performance shall be extended on a day-for-day basis for each day of actual delay, provided that the following requirements are complied with by the Development Manager: (y) the Development Manager shall give prompt written notice of such occurrence to Owner and Skechers Member, describing the Force Majeure event with specificity, and (z) the Development Manager shall diligently attempt to remove, resolve or otherwise eliminate such Force Majeure event and minimize the cost and time delay associated with such event, keep the Owner and Skechers Member advised with respect thereto, and commence performance of its obligations under this Agreement promptly upon such removal, resolution or elimination.

Section 4.3 Development Manager's Indemnity. Development Manager shall indemnify Owner and its partners, members, managers, shareholders, directors, officers and employees and the heirs, successors and assigns of each of the foregoing (collectively, the "**Indemnified Parties**"), defend the Indemnified Parties and hold the Indemnified Parties harmless from and against any and all suits, actions or claims and from resulting damages, losses, costs or expenses (including reasonable attorneys' fees and court costs, but excluding consequential damages and punitive damages) incurred by the Indemnified Parties or any one or more of them due to or arising from, directly or indirectly, (a) the grossly negligent acts, or omissions, willful misconduct or material breach of this Agreement by Development Manager, (b) the misapplication or misappropriation by Development Manager of any funds of Owner, (c) the actions of Development Manager outside the scope of authority granted to Development Manager under this Agreement, or (d) the material breach by the Development Manager of any of its material obligations under this Agreement.

Section 4.4 Owner's Indemnity. Owner shall indemnify the Development Manager and its members, managers, shareholders, directors, officers and employees and the heirs, successors and assigns of each of the foregoing (collectively, the "**Manager Indemnified Parties**"), defend the Manager Indemnified Parties and hold the Manager Indemnified Parties harmless from and against any and all suits, actions or claims and from resulting damages, losses, costs or expenses (including reasonable attorneys' fees and court costs, but excluding consequential damages and punitive damages) incurred by the Manager Indemnified Parties or any one or more of them due to or arising from, directly or indirectly, the willful misconduct or breach of this Agreement by Owner or any other loss not subject to the indemnification obligations set forth in Section 4.3 arising from the performance of Development Manager's obligations under this Agreement (except to the extent resulting from the acts or omissions of HF Member in violation of any provisions in the LLC Agreement).

Section 4.5 Records. Records of all time charged to the Project, and records of Development Services performed shall be maintained on a customary and consistent basis and shall be available to Owner at mutually convenient times and upon reasonable prior written notice for review and audit. Development Manager shall maintain all accounting records and receipts for at least three (3) years from Completion of the Project. Records regarding any dispute involving this Agreement shall be maintained until such dispute is resolved.

Section 4.6 Time Delays/Arbitration. Under the LLC Agreement, certain matters may be submitted to binding arbitration. If, as a result of the institution of any arbitration between HF Member and Skechers Member, the arbitrator determines that there is a resulting change in the Project Schedule, then the Project Schedule shall be modified accordingly.

ARTICLE 5
COMPENSATION

Section 5.1 Development Manager Fee. In consideration of Development Manager's Services hereunder, Owner shall pay to Development Manager a fee (the "***Development Manager Fee***"), equal to three and one-half percent (3.5%) of the total Project Costs (including both Hard Costs and Soft Costs, but exclusive of the cost of the Land, as reflected in the Development Budget) minus the original principal balance of the HF Loan (as defined in the LLC Agreement). Subject to availability of draws under the Construction Loan, such fee shall be paid in equal monthly installments over the pro-forma construction period (as set forth in the Project Schedule). Development Manager shall not be entitled to reimbursement of any expenses incurred in performing the Development Services that represent compensation of any of Development Manager's employees or otherwise represent Development Manager's overhead, but Development Manager shall be entitled to reimbursement of reasonable out-of-pocket expenses incurred in performing the Development Services.

Section 5.2 Third Party Consultants. It is contemplated that Owner will engage all contractors, architects, engineers, attorneys and other consultants and professionals to be employed in connection with the Project. Development Manager is not obligated to pay the compensation of any such third party consultants or professionals (other than on behalf of Owner).

ARTICLE 6
INSURANCE

Section 6.1 Development Manager Insurance. Development Manager shall procure and maintain (or cause the General Contractor to procure and maintain), throughout the term of this Agreement all insurance required pursuant to this Section 6.1.

(a) The form and substance of all insurance policies obtained by Development Manager in meeting the requirements under this Section 6.1 shall be subject to reasonable approval by Owner. All such policies shall be issued by insurance companies qualified to transact insurance in the state or commonwealth in which the Project is located and with a minimum financial rating of A- Class IX by A.M. Best, or otherwise acceptable to Owner. Development Manager shall furnish a certificate from its insurance carrier(s) ten (10) days before commencement of the work, and annually thereafter, demonstrating that it has complied with the above requirements and stating that the insurer will provide not less than thirty (30) days prior notice of the cancellation, non-renewal, or material change in any of the coverages so required.

(b) Insurance provided under Section 6.1(c):

(i) Shall be primary and not in excess of or contributing to any insurance or self-insurance maintained by Owner, any other party whom Owner identifies, or its respective consultants and agents;

(ii) For insurance specified by Section 6.1(c) shall be endorsed to state that Owner, and any other party whom Owner identifies and their respective partners, members, managers, directors, officers, and employees are named as Additional Insureds as per ISO Form CG2037 1001, if reasonably available, or its substantial equivalent.

(c) (i) Commercial General Liability Insurance, with a combined single limit of \$1,000,000 for bodily injury and property damage per occurrence and annual project aggregate of \$2,000,000, and \$1,000,000 for completed operations.

(ii) Business Automobile Liability Insurance, with a combined single limit for bodily injury and property damage per accident of \$1,000,000 covering any and all owned, non-owned and hired autos and including Broadened Pollution Coverage per CA9948 or its equivalent.

(iii) Worker's Compensation and Employer's Liability Insurance that provides the statutory benefits required by law (but not less than \$1,000,000 for Employer's Liability Insurance) .

(iv) Excess liability insurance, following the form, supplementing the general liability, auto liability, and employers liability referenced above with minimum limits of \$5,000,000.

(d) Any insurance that contains a deductible or self-insured retention in excess of \$25,000 shall require Approval by Owner.

(e) Development Manager shall require the General Contractor to procure and maintain insurance as specified in Section 6.1(c).

(f) If Development Manager desires to have limits in excess of those required or desires to carry additional coverages for its own protection, the arrangements therefor and the cost thereof shall be the sole responsibility of Development Manager. Otherwise, such insurance shall be paid for by Owner, to the extent not paid by the General Contractor.

(g) Within ten (10) days of Owner's request, Development Manager shall provide such requesting party copies of all insurance policies required under Section 6.1(c).

(h) In the event Development Manager does not comply with the insurance requirements as set forth under Section 6.1, Owner may, at its option (and without waiving any other rights or remedies), to the extent possible, obtain and maintain such insurance, and the cost of such insurance shall be paid by Development Manager and may be deducted from Development Manager's compensation.

Section 6.2 Owner Insurance. Owner shall procure and maintain all insurance pursuant to this Section 6.2 covering Development Manager, the General Contractor and all other contractors and professionals and Owner.

(a) All such policies shall be issued by insurance companies qualified to transact insurance in the state or commonwealth in which the Project is located and with a minimum financial rating of A- Class IX by A.M. Best.

(b) Insurance provided under Section 6.2(c):

(i) Shall be endorsed to state that the right of cancellation or material change in coverage by the insurance carrier is waived, unless thirty (30) days' written notice is furnished by registered mail to Development Manager.

(c) Within thirty (30) days following the Effective Date and for so long as the Improvements are under construction pursuant to the Project Construction Contract, Owner shall obtain and maintain “Builders Risk” Property Insurance on an “all risk” peril form (including all usual and customary coverage for a Project of this nature) for an amount equal to the completed replacement value of the Improvements. Such insurance shall include the interests of Owner, Development Manager, the General Contractor and subcontractors in the work, as their interests may appear. A certificate of insurance evidencing the foregoing shall be provided to Development Manager upon request.

Section 6.3 Waiver of Subrogation. To the fullest extent permitted without invalidating any insurance policies required hereunder, Owner and Development Manager waive all rights against (a) each other and any of their subcontractors, agents and employees, each of the other, and (b) the General Contractor, the Project Architect, and any of their subcontractors, agents and employees, for damages caused by fire or other perils to the extent covered by property insurance obtained to this Section 6.3 or other property insurance applicable to the construction of the Project, except such rights as they have to proceeds of such insurance held by the Owner as fiduciary. The Owner or Development Manager, as appropriate, shall require of the General Contractor, the Project Architect, and the subcontractors, agents and employees of each of them, by appropriate agreements, written where legally required for validity, similar waivers each in favor of other parties enumerated herein. The policies shall provide such waivers of subrogation by endorsement or otherwise. A waiver of subrogation shall be effective as to a person or entity even though that person or entity would otherwise have a duty of indemnification, contractual or otherwise, did not pay the insurance premium directly or indirectly, and whether or not the person or entity had an insurable interest in the property damaged.

ARTICLE 7

LIMITATION AS TO SERVICES AND AUTHORITY

Section 7.1 Limitation. Without otherwise relieving Development Manager of its obligation to perform the Development Services:

(a) Nothing in this Agreement shall be construed to relieve the Project Architect, the Project Engineers, or any other contractors, subcontractors, consultants, suppliers, attorneys or other professionals rendering services in connection with the Project of their responsibilities to perform their duties in accordance with the terms of their respective contracts, or to preclude Owner or Development Manager from pursuing their respective rights vis-à-vis such consultants or professionals. Furthermore, the furnishing of services by the Owner or other consultants of Owner shall not be construed to relieve Development Manager of its responsibility to perform its duties in accordance with this Agreement.

(b) Development Manager shall have no right or obligation to execute any contract or agreement for or on behalf of Owner except as expressly authorized in writing from time to time by Owner.

Section 7.2 Owner and Skechers Member Approvals. Except to the extent expressly permitted under the Development Budget or this Agreement, and without limitation on the other restrictions contained in this Agreement, Development Manager shall not take any action, expend any sum, make any decision, give any consent, approval or authorization, enter into any agreement or incur any obligation with respect to any of the following matters unless and until the same have been Approved by Owner and approved by Skechers Member: (a) any change in the Approved Plans; or (b) any material expenditure or incurring of any material obligation by or on behalf of Owner except for expenditures made and obligations incurred pursuant to and specifically set forth in the Development Budget.

ARTICLE 8

OWNER AND INDEPENDENT CONSULTANTS

Section 8.1 Owner's Inspection Rights.

(a) Development Manager acknowledges that Owner has the right to inspect the Project and to review all of General Contractor's applications for payment and all of Development Manager's applications for disbursement of Construction Loan proceeds during normal business hours and upon reasonable prior written notice to Development Manager. Development Manager agrees (i) to reasonably cooperate with Owner in connection with the performance by Development Manager of its Development Services hereunder, (ii) to provide Owner and Skechers Member copies of all correspondence, notices, schedules and other information that Development Manager provides, or is required hereunder to provide to Lender, such delivery to be simultaneous with delivery of such information to Lender, (iii) except as expressly permitted under this Agreement and/or the LLC Agreement, not to amend this Agreement, the Approved Plans, the Development Budget or the Project Schedule without the Approval by Owner and approval by Skechers Member.

(b) Skechers Member may retain (at its expense) independent third-party consultants to advise and assist with the Project. Development Manager agrees to reasonably cooperate with such consultants, and to allow such consultants access, with no time, place or prior notice requirement or other restrictions, requirements or limitations (except as provided in this Agreement and reasonable safety regulations of the General Contractor that apply also to Development Manager) to inspect the Project, the work in progress, all work sites involved in connection with construction of the Project (whether located on the Land or otherwise) and Development Manager's and the General Contractor's books and records in connection therewith. Without limiting the generality of the foregoing, representatives of Skechers Member shall have the right to attend all monthly construction meetings of the General Contractor and the Project Architect or the Project Engineers, and all construction meetings of the General Contractor and representatives of the Lender. Development Manager shall keep Skechers Member reasonably informed of any such meetings so that representatives of Skechers Member may attend.

ARTICLE 9

TERMINATION

Section 9.1 Termination by Owner. If (a) Development Manager defaults in the performance of any of its obligations hereunder in any material respect and fails to cure such failure within thirty (30) days following written notice thereof or, in the case of any such failure which can be cured but not within such thirty (30) day period, if Development Manager fails to begin reasonable steps to cure such failure within thirty (30) days following written notice thereof or does not thereafter diligently prosecute such cure to completion within ninety (90) days in the aggregate following written notice thereof, or (b) Development Manager commits any act in its capacity as Development Manager involving fraud, bad faith, willful misconduct or gross negligence, or (c) the HF Member defaults under the LLC Agreement (after any applicable notice and cure period) then Owner may, without prejudice to Owner's other rights or remedies under the LLC Agreement, at law or in equity, terminate this Agreement and take possession of all work performed hereunder by Development Manager and perform the Development Services by whatever method Owner may deem expedient including continuing to use any contractors, subcontractors or other professional consultants engaged on the Project. In the event this Agreement is terminated pursuant to this Section 9.1, Development Manager shall not be entitled to any portion of the Development Manager Fee not theretofore paid to Development Manager, and if termination is pursuant to clauses (a) or (b) above, in addition to any other measure of damages available

under the LLC Agreement, at law or in equity, Owner shall be entitled to recover from Development Manager all actual damages (expressly excluding consequential or punitive damages) incurred by Owner in connection with the Project resulting from Development Manager's default hereunder, including all costs and expenses incurred by Owner in pursuing remedies hereunder or in contracting with another development manager to complete the Project.

Section 9.2 Suspension and Termination by Development Manager. If Owner fails to pay Development Manager any portion of the Development Manager Fee due to Development Manager hereunder, then (except in the case of a good faith dispute as to amounts due or in the case of a failure to pay resulting from the acts or omissions of the HF Member), Development Manager may, without prejudice to Development Manager's other rights or remedies, after giving Owner ten (10) days' written notice, suspend performance unless Owner makes the required payment within such ten (10) day period. If Development Manager suspends performance, it will be without prejudice to Development Manager's right to terminate this Agreement at any time after the date that is thirty (30) days following the date of such default by Owner unless Owner timely cures the default in question within the aforesaid 30-day period. Any suspension by Development Manager of its performance hereunder pursuant to this Section 9.2 shall in no event cause Development Manager to be in default hereunder and (a) any additional costs incurred for the Completion of the Project as a result of or in connection with such suspension of performance shall be deemed to be included within the meaning of "*Added Costs*" as used in this Agreement; and (b) any delays in the Completion of the Project as a result thereof or in connection therewith shall be deemed to extend all affected dates set forth in the Project Schedule. In addition, whether Development Manager suspends performance or terminates this Agreement pursuant to this Section 9.2, Development Manager shall be entitled to any and all rights and remedies available at law or in equity (expressly excluding consequential or punitive damages).

ARTICLE 10

MISCELLANEOUS

Section 10.1 Protection of Persons or Property. If Development Manager becomes aware of any emergency on the Project affecting the safety of persons or property, Development Manager shall take all commercially reasonable prudent actions to prevent threatened damage, injury or loss, and Development Manager shall notify Owner as soon as practicable thereafter of such emergency. Unless such emergency was caused by the gross negligence or willful misconduct of Development Manager, Owner shall reimburse Development Manager for all reasonable costs incurred by it in connection with such actions.

Section 10.2 Applicable Law. This Agreement shall be construed in accordance with the laws of the State of California.

Section 10.3 Jurisdiction. Jurisdiction for all legal actions, including cross claims brought by Owner or Development Manager against the other, which may arise as a result of any question, matter or dispute concerning the Project or this Agreement shall lie exclusively with the appropriate California court in the County of Los Angeles.

Section 10.4 Notices. All notices required under this Agreement shall be deemed to have been received by the addressee if delivered to a duly authorized representative of the Person for whom they are intended or if sent by certified mail, return receipt requested, by hand or by overnight courier, addressed as follows:

If to Owner:	HF Logistics-SKX T2, LLC c/o Highland Fairview Properties 14225 Corporate Way Moreno Valley, California 92553 Attention:Iddo Benzeevi
With a copy to:	Skechers R.B., LLC c/o Skechers USA, Inc. 228 Manhattan Beach Boulevard Manhattan Beach, California 90266 Attention:David Weinberg Chief Operating Officer
If to Development Manager:	HFC Holdings, LLC c/o Highland Fairview Properties 14225 Corporate Way Moreno Valley, California 92553 Attention:Iddo Benzeevi
With Additional Copy to:	James Lieb, Esq. Executive Vice President The Trump Group 400 Park Avenue New York, NY 10022

Either party may change its address for the giving of notices by notice given in accordance with this Section.

Section 10.5 Extent of Agreement. This Agreement represents the entire and integrated agreement between the parties hereto with respect to Development Services and supersedes all prior negotiations, representations or agreements, either written or oral. This Agreement may only be amended by written instrument executed by Development Manager, Owner, and Skechers Member.

Section 10.6 Severability. In the event that any of the provisions, or portions or applications thereof, of this Agreement are held to be unenforceable or invalid by any court of competent jurisdiction, such invalid or unenforceable provision shall in no way affect the validity and enforceability of the remaining provisions, or portions or applications thereof.

Section 10.7 Successors and Assigns. Owner and Development Manager, respectively, bind themselves, their successors, assigns and legal representatives to the other party to this Agreement and to the successors, assigns and legal representatives of such other party with respect to all covenants of this Agreement. Neither party may assign this Agreement or any of its obligations to perform under this Agreement without the express written consent of the other. However, Owner has the right to assign its rights hereunder to the Lender.

Section 10.8 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original agreement and all of which together shall constitute one agreement.

Section 10.9 Third Party Beneficiaries. This Agreement is intended for the benefit of, and shall be enforceable by, only Development Manager, Owner, Skechers Member and their respective permitted successors and assigns, and not by any third parties, including creditors of Owner or Development Manager, except to the extent that Owner's rights under this Agreement have been assigned to the Lender.

Section 10.10 Effect of Waiver or Consent. A waiver or consent, express or implied, to or of any breach or default by any party in the performance of that party of its obligations under this Agreement is not a consent or waiver to or of any other breach or fault in the performance by that party of the same or any other obligation with that party with respect to this Agreement. Failure on the part of that party to complain of any act of any party or to declare any party in default with respect to this Agreement, irrespective of how long that failure continues, does not constitute a waiver by that party of its rights with respect to that default until the applicable statute of limitations has run.

Section 10.11 Further Assurances. In connection with this Agreement and the transactions contemplated hereby, each party shall execute and deliver any additional documents and instruments in performing additional acts that may be necessary or appropriate to effectuate and perform the provisions of this Agreement and those transactions.

Section 10.12 Attorneys' Fees. If any litigation is instituted by any party against another party relating to this Agreement or the subject matter thereof, the party prevailing in such litigation shall be entitled to recover, in addition to all damages allowed by law and other relief, all court costs and reasonable attorneys' fees incurred in connection therewith.

Section 10.13 Independent Contractor; Licenses. In performing its services hereunder, Development Manager shall be an independent contractor. Development Manager shall, at its own expense, qualify to do business in California (if not already qualified) and obtain and maintain such licenses, if any, as may be required to be issued and held in its name for the performance by Development Manager of the Development Services under this Agreement.

Section 10.14 Agreement Negotiation. This Agreement is the result of detailed negotiations between the parties and the terms herein have been agreed upon after prolonged discussions. All parties agree and acknowledge that they were represented by competent counsel in such negotiations and that in construing this Agreement neither party shall be considered to have drafted this Agreement.

Section 10.15 Skechers Member Approvals. Any approvals or consents to be given by Skechers Member hereunder shall not be unreasonably withheld or delayed.

(signature pages follow)

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

“OWNER”

HF LOGISTICS –SKX T2, LLC, a Delaware limited liability company

By: HF Logistics I, LLC, a Delaware limited liability company, its Managing Member

**By: _____
Iddo Benzeevi, President and Chief Executive Officer**

By: Skechers R.B., LLC, a Delaware limited liability company, its Managing Member

By: Skechers R.B., LLC, a Delaware limited liability company, its Managing Member

**By: _____
David Weinberg, Chief Operating Officer**

**By: _____
Robert Greenberg, Chief Executive Officer**

“DEVELOPMENT MANAGER”

HFC HOLDINGS, LLC, a Delaware limited liability company

**By _____
Iddo Benzeevi, its Chief Executive Officer**

JOINDER

Skechers R.B., LLC, a Delaware limited liability company and Skechers USA, Inc., a Delaware corporation, each hereby joins in the execution of this Agreement as a third party beneficiary of this Agreement and for the purposes of confirming their agreement to comply with and perform those obligations applicable to Skechers Member or Skechers Parent set forth herein.

“SKECHERS PARENT”

“SKECHERS MEMBER”

SKECHERS USA, INC., a Delaware corporation

SKECHERS R.B., LLC, a Delaware limited liability company

By: _____
David Weinberg, Chief Operating Officer

By: Skechers USA, Inc, a Delaware corporation, its sole member

By: _____
David Weinberg, Chief Operating Officer

By: _____
Robert Greenberg, Chief Executive Officer

By: _____
Robert Greenberg, Chief Executive Officer

EXHIBIT "A"
DEVELOPMENT BUDGET AND PROJECT SCHEDULE

SKX Expansion Budget
750,000 SF (45' Clear)

SKX Expansion Estimated budget subject to final design and specification		750,000 SF 45' Clear		
Building Shell		SF Price	Unit	Cost
Building Shell 45' Clear w Architectural Standards, TPO & Solar Ready Roof		\$ 41.73	Building SF	\$ 31,297,500
Sub-Total		\$ 41.73	Building SF	\$ 31,297,500
Contingency		\$ 5.49	Building SF	\$ 4,114,346
Sub-Total Building Shell		\$ 47.22	Building SF	\$ 35,411,846
On-Site Improvements				
On-Site Improvements and Landscaping		\$ 11.75	Building SF	\$ 8,812,500
Sub-Total		\$ 11.75	Building SF	\$ 8,812,500
Contingency		\$ 1.47	Building SF	\$ 1,100,179
Sub-Total On-Site Improvements		\$ 13.22	Building SF	\$ 9,912,679
Solar				
Solar (@\$2.80/lw)		\$ 1.40	Building SF	\$ 1,050,000
Sub-Total		\$ 1.40	Building SF	\$ 1,050,000
Contingency (20%)		\$ 0.28	Building SF	\$ 210,000
Sub-Total Solar		\$ 1.68	Building SF	\$ 1,260,000
Tenant Improvements allowance		\$ 4.00	@ 720k SF	\$ 2,880,000
Total Budget for TI Improvements		\$ 3.84	Building SF	\$ 2,880,000
Total Hard Costs for Building and On-sites		\$ 65.95	Building SF	\$ 49,464,526
Soft Costs				
Design		Unit Price	Unit	Cost
Design Development		\$ 1.15	Building SF	\$ 865,000
Engineering + Architecture and Construction Ready Design		\$ 1.72	Building SF	\$ 1,290,000
Fees				
Plan Check		\$ 0.60	Building SF	\$ 450,000
Inspection		\$ 0.11	Building SF	\$ 80,000
Public Improvement Bonds		\$ 0.09	Building SF	\$ 70,000
Permits / Other Fees (Caltrans, WQ, Encroachment, ect)		\$ 0.10	Building SF	\$ 75,000
Sub-Total		\$ 1.77	Building SF	\$ 2,830,000
Contingency (20%)		\$ 0.75	Building SF	\$ 566,000
Sub-Total Fees & Design for Building and On-Site		\$ 4.53	Building SF	\$ 3,396,000
Impact Fees, G&A, Property Tax and Insurance				
Impact Fees		SF Price	Unit	Cost
EMWD Fees		\$ 0.80	Building SF	\$ 600,000
DIF (Based on \$1.02 for DIF)		\$ 1.02	Building SF	\$ 765,000
TUMF		\$ 0.82	Building SF	\$ 616,845
Schools		\$ 0.61	Building SF	\$ 457,500
Project and Construction G&A		\$ 3.28	Building SF	\$ 2,463,586
Property Tax (Vacant Land)		\$ 0.16	Building SF	\$ 120,000
Insurance		\$ 0.34	Building SF	\$ 257,216
Sub-Total Impact Fees, G&A, Tax and Insurance for Building and On-Site		\$ 7.04	Building SF	\$ 5,280,146
Total Soft Costs for Building and On-sites		\$ 11.57	Building SF	\$ 8,676,146
Total Building Cost (Hard and Soft Costs)		\$ 77.52	Building SF	\$ 58,140,672

SKX Expansion Budget
750,000 SF (45' Clear)

Offsite Costs		750,000 SF 45' Clear		
Hard Costs		Unit Price	Unit	Cost
Eucalyptus Street - Parcel 2 Frontage		\$ 2.63	Building SF	\$ 1,970,000
Eucalyptus Street - Parcel 3 Frontage		\$ -	Building SF	\$ -
Eucalyptus Street - Additional Improvements (Lane and Landscape)		\$ 0.41	Building SF	\$ 310,000
Roundabout @ Eucalyptus and Truck Entry		\$ 2.35	Building SF	\$ 1,760,000
Redland Blvd - Parcel 3 Frontage (Roundabout)		\$ 2.53	Building SF	\$ 1,900,000
Backbone Water		\$ 0.10	Building SF	\$ 76,000
Wayfinding Signage (new wayfinding)		\$ 8.02	Building SF	\$ 6,016,000
Sub-Total				
	Contingency (20%)	\$ 1.60	Building SF	\$ 1,203,200
Total Hard Costs for Offsite		\$ 9.63	Building SF	\$ 7,239,200
Soft Costs		Unit Price	Unit	Cost
Entitlements (CEQA Compliance & Plot Plan)		\$ 0.93	Building SF	\$ 700,000
Engineering and Construction Ready Design for Offsite Improvements		\$ 1.06	Building SF	\$ 795,000
Plan Check		\$ 0.30	Building SF	\$ 225,000
Inspection		\$ 0.07	Building SF	\$ 50,000
Public Improvement Bonds		\$ 0.27	Building SF	\$ 200,000
Permits / Other Fees		\$ 0.03	Building SF	\$ 25,000
Sub-Total		\$ 2.66	Building SF	\$ 1,995,000
	Contingency (20%)	\$ 0.53	Building SF	\$ 399,000
Sub-Total Entitlements, Engineering, Plan Check, Inspection, Bonds, Fees and Permits		\$ 3.19	Building SF	\$ 2,394,000
Project and Construction G&A		\$ 0.42	Building SF	\$ 312,426
Property Tax		\$ -	Building SF	\$ -
Insurance		\$ 0.05	Building SF	\$ 37,540
Sub-Total G&A, Tax, and Insurance for Offsite Improvements		\$ 0.47	Building SF	\$ 349,966
Total Soft Costs for Offsite		\$ 3.66	Building SF	\$ 2,743,966
Total Offsite Cost (Hard and Soft Costs)		\$ 13.28	Building SF	\$ 9,963,166
Legal, Financing & Leasing (FL)		Unit Price	Unit	Cost
Legal		\$ 3.20	Building SF	\$ 2,400,000
Leasing Commission		\$ -	Building SF	\$ -
Land Parcel 2 (included in existing partnership, 22.37 AC)		\$ -	Building SF	\$ -
Land Parcel 3 (12.91 AC @ \$14.24 / SF on Land)		\$ 9.33	Building SF	\$ 7,000,000
Loan origination Fee 2% (less legal)		\$ 1.95	Building SF	\$ 1,465,000
Loan Legal Fees		\$ 0.13	Building SF	\$ 100,000
Construction interest 6%		\$ 3.41	Building SF	\$ 2,555,000
Development Fee 3.5% on All Development Cost (includes TI, excludes Land & Settlement)		\$ 3.88	Building SF	\$ 2,911,497
Sub-Total Fees for Legal, Financing & Leasing		\$ 21.91	Building SF	\$ 16,431,497
Total Project Costs		\$ 112.71	Building SF	\$ 84,535,335
Building Size				
Warehouse SF		750,000	SF	
Clear Height		45	FT	
Ridge Height		50	FT	
Cubic Foot of Warehouse		33,750,000	CF	
Site Area		1,537,668	SF	

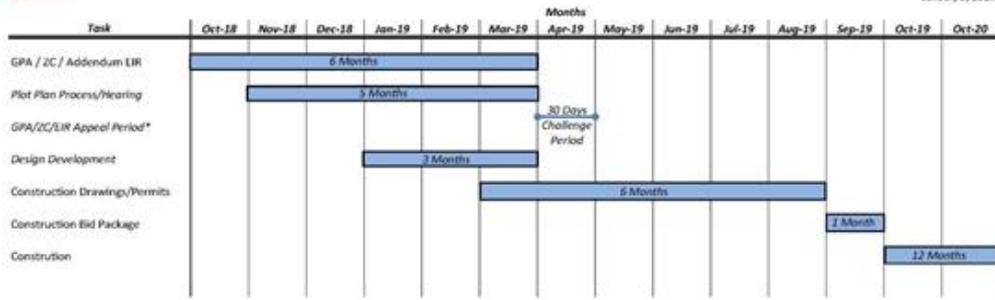
TI Improvements Requested by Tenant			
Three (3) additional 4,000 AMP Services		\$	841,500
Stairs to Roof Access		\$	66,000
Float and Grind VNA for a F-min of 70/80 (Long/ Trams)		\$	500,000
Electrical Distribution on each column		\$	281,184
Guardhouse (2)		\$	169,814
Driver Check-in Entrance		\$	68,845
Dock Door Equipment		\$	1,000,536
Facility Area - Battery Charging		\$	280,897
Electrical Connections for Compactors		\$	48,847
Electric Drop and Data Rums for Supervisor Work Stations	Allowance	\$	400,000
Facility Areas / Office Area (7,500 SF Total)			
Open Offices (2,500 SF)		\$	286,831
Breakroom (600 SF)		\$	98,742
Supply Closet & Storage Closet (160 SF)		\$	49,720
Other Office Area with Restrooms (aprox. 4,240 SF)		\$	370,368
Lighting System		\$	1,262,695
Signage	Allowance	\$	50,000
Smoking Area (400 SF)		\$	75,425
Conveyor Bridge & Conveyor Openings + Reinforcement of Bldg A wall		\$	400,000
Roof reinforcement for ceiling hanging of conveyor	No Estimate Provided		
Equipment canopies (if any) & supporting wall openings	No Estimate Provided		
4" empty conduit for fiber run from current data center to MDF in new building—no 90° bends	No Estimate Provided		
UPS & back-up generators	No Estimate Provided		
Mezzanine footings	No Estimate Provided		
	Sub-Total of Construction Cost for TI's	\$	6,251,404
	Design / Plan Check & Inspection Cost for TI's (excludes allowances)	\$	1,155,196
	20% Contingency (excludes allowances)	\$	1,155,196
	Total Budget for TI Improvements	\$ 11.42	Building SF \$ 8,561,796

This opinion of cost is intended solely as information and guidance. The opinion of estimate cost have been prepared based on general understanding of the items and without any specific construction documents. Landlord has no control over the cost of labor and material, competitive bidding, or market conditions. The Opinion of costs is based on consultations with experienced general contractors and adjusted to accommodate factors known at the time the Opinion was prepared.



Skechers - Parcel 2 & 3 Expansion
NO LITIGATION Assumption

January 3, 2019



Notes:
*If no challenge is filed within 30 days of approval of the General Plan Amendment and Zone Change, the project is clear of litigation.

FOURTH AMENDMENT TO LEASE AGREEMENT

THIS FOURTH AMENDMENT TO LEASE AGREEMENT (the "**Fourth Amendment**") is made and entered into this 12th day of February, 2019 by and between **HF LOGISTICS-SKX T1, LLC, a Delaware limited liability company** ("**Landlord**") and **SKECHERS U.S.A., INC., a Delaware corporation** ("**Tenant**").

RECITALS

A. HF LOGISTICS I, LLC, a Delaware limited liability company and Tenant entered into that certain Lease Agreement dated September 25, 2007 (the "**Original Lease**"), as amended by that certain Amendment to Lease Agreement dated December 18, 2009 (the "**First Amendment**"), and as further amended by that certain Second Amendment to Lease Agreement dated April 12, 2010 (the "**Second Amendment**"), and as further amended by that certain Third Amendment to Lease Agreement dated August 18, 2010 (the "**Third Amendment**"). HF Logistics I, LLC assigned all of its right, title and interest as landlord under the Lease to Landlord, and Landlord assumed the obligations of HF Logistics I, LLC as landlord under the Lease. The Original Lease, as amended by the First Amendment, the Second Amendment and the Third Amendment, is referred to herein as the "**Lease**". Pursuant to the Lease, Tenant has leased from Landlord certain premises situated at the northwest corner of Theodore Street and Eucalyptus Avenue in Moreno Valley, California, as more fully described therein.

B. The parties desire to further amend the Lease to extend the term, so that the Termination Date will be the same date as the termination date of that certain Lease dated of even date herewith between HF Logistics-SKX T2, LLC, a Delaware limited liability company, as landlord, and Tenant, as tenant, for approximately 35.30 acres of land situated adjacent to the Premises, upon which will be constructed an approximately 750,000 square foot building (the "**Expansion Parcel Lease**").

NOW, THEREFORE, for a good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. The Termination Date shall be the "Termination Date" as set forth in the Expansion Parcel Lease.
2. The Base Rent payable under the Lease from the original Termination Date (November 15, 2031) until the new Termination Date (as established under this Fourth Amendment) shall be at the same rates per square foot that are then payable under the Expansion Parcel Lease.
3. The parties agree that the provisions in the Lease relating to the Expansion Site (Addendum 4, Paragraph 3) are of no further force or effect. Upon request of Landlord, Tenant will execute and deliver any instrument reasonably required to remove from the public records any memorandum of option which may have been recorded with respect to the Expansion Site.

4. Paragraph 23 of the Lease is hereby amended by adding the following clause (viii):

“viii. Tenant shall default (beyond any applicable notice and/or cure period) under that certain lease of even date herewith between HF Logistics-SKX T2 LLC, as landlord, and Tenant, as tenant, for approximately 35.30 acres of land adjacent to the Premises.”

5. Capitalized terms used in this Fourth Amendment shall have the same meanings as set forth in the Lease, unless a different definition is set forth herein.

6. Except as amended by this Fourth Amendment, all terms and conditions of the Lease shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Fourth Amendment as of the date first above written.

“LANDLORD”
HF LOGISTICS I, LLC, a Delaware limited liability company

“TENANT”
SKECHERS U.S.A., INC., a Delaware corporation

By: /s/ Iddo Benzeevi
Iddo Benzeevi, President and Chief Executive Officer

By: /s/ David Weinberg
David Weinberg, Chief Operating Officer

LEASE AGREEMENT

THIS LEASE AGREEMENT (the "Lease") is made this 12th day of February, 2019 (the "Effective Date"), between **HF LOGISTICS-SKX T2, LLC, a Delaware limited liability company** ("Landlord"), and the Tenant named below.

Tenant: Skechers U.S.A., Inc., a Delaware corporation

Tenant's Representative: Paul Galliher

Address and Phone: 228 Manhattan Beach Blvd.
Manhattan Beach, CA 90266
Telephone: (909) 390-1619

Building: That certain Building, containing approximately 750,000 net rentable square feet, to be constructed by Landlord in accordance with the provisions of this Lease.

Project: Highland Fairview Corporate Park

Premises: The Building, together with the parking areas, landscaped areas and other areas consisting of approximately 35.30 acres of land situated in Moreno Valley, California, as shown on the Site Plan attached hereto as Exhibit "A", and consisting of Parcel 2 and Parcel 3 of Parcel Map No. 35629 (APN's: 488-350-031 and 035, and 488-350-027, 032 and 036).

Possession: If construction has not commenced within eighteen (18) months after the Effective Date, for any reason other than a default hereunder by Tenant, then Tenant may terminate this Lease by notice to Landlord within thirty (30) days after the end of such eighteen (18) month period (unless construction is commenced within such thirty (30) day period, in which case this Lease shall not be terminated). Upon termination, any prepaid Base Rent and Estimated Operating Expense Payments made by Tenant shall be promptly returned to Tenant, and neither party shall have any further rights or obligations under this Lease, except for those rights and obligations which expressly survive termination of the Lease as set forth herein.

Lease Term: Beginning on the Commencement Date and ending on the last day of the 180th full calendar month thereafter (the "Termination Date").

Commencement Date: The earlier of (a) 30 days after the date of Substantial Completion of the Premises or (b) the date Tenant shall commence its business operations in the Premises. The parties agree to execute a written instrument which confirms the Commencement Date and the Termination Date promptly after such dates have been determined.

Monthly Base Rent: See Addendum 1

**Expense Payments (estimates only
and subject to adjustment to actual
costs and expenses according to the
provisions of this Lease)**

Operating Expenses	\$10,588
Taxes	\$73,333
Insurance	\$24,044
Total:	<u>\$107,965</u>

**Initial Monthly Base Rent and Estimated
Operating Expense Payments:**

\$565,465

Security Deposit:

None

Broker:

None

Addenda:

1. Base Rent
2. Construction
3. Miscellaneous Provisions

Exhibits:

- A - Site Plan
- B - Building Design Criteria
- C - Form of Highland Fairview Sublease

1. **Granting Clause.** In consideration of the obligation of Tenant to pay rent as herein provided and in consideration of the other terms, covenants, and conditions hereof, Landlord leases to Tenant, and Tenant takes from Landlord, the Premises, to have and to hold for the Lease Term, subject to the terms, covenants and conditions of this Lease.

2. **Acceptance of Premises.** Except as otherwise set forth in the Lease, Tenant shall accept the Premises in its condition as of the Commencement Date, subject to all applicable laws, ordinances, regulations, covenants and restrictions. Landlord has made no representation or warranty as to the suitability of the Premises for the conduct of Tenant's business, and Tenant waives any implied warranty that the Premises are suitable for Tenant's intended purposes. Except as otherwise set forth in the Lease, in no event shall Landlord have any obligation for any defects in the Premises or any limitation on its use. The taking of possession of the Premises shall be conclusive evidence that Tenant accepts the Premises and that the Premises were in good condition at the time possession was taken except for items that are Landlord's responsibility under the Lease and any punchlist items agreed to in writing by Landlord and Tenant. Notwithstanding anything to the contrary set forth herein, Landlord represents and warrants that as of the Commencement Date (i) the structural integrity of the Premises, including without limitation, the foundation, roof, and any load bearing or retaining walls, is free from any material latent or patent defects, (ii) Landlord is currently not the subject of any bankruptcy or insolvency proceeding, (iii) the Premises shall be in compliance with all Legal Requirements (hereinafter defined) in effect as of the Commencement Date of this Lease, (iv) Landlord has full power, right and authority to execute and perform this Lease and all limited liability company action necessary to do so has been duly taken, and (v) there are no covenants, conditions, restrictions or agreements in existence which are not part of the public records which will adversely affect the permitted use of the Premises. If any of the foregoing representations or warranties are inaccurate, Landlord shall, promptly after receipt of written notice from Tenant setting forth with specificity the nature and extent of such inaccuracy, rectify the same at Landlord's expense.

3. **Use.** The Premises shall be used only for the purpose of receiving, storing, packaging, shipping and selling (but limited to wholesale sales) products, materials and merchandise made and/or distributed by Tenant and for such other lawful purposes as may be incidental thereto; provided, however, with Landlord's prior written consent, and provided that such use is permissible under applicable zoning and other Legal Requirements. Tenant may also use the Premises for light manufacturing. Tenant shall not conduct or give notice of any auction, liquidation, or going out of business sale on the Premises, without Landlord's prior written consent which shall not be unreasonably withheld, conditioned or delayed. Tenant will use the Premises in a careful, safe and proper manner and will not commit waste, overload the floor or structure of the Premises or subject the Premises to use that would damage the Premises. Tenant shall not permit any objectionable or unpleasant odors, smoke, dust, gas, noise, or vibrations to emanate from the Premises, or take any other action that would constitute a nuisance or would disturb, unreasonably interfere with, or endanger Landlord or any tenants of the Project. For purposes of the preceding sentence, noise or vibrations from Tenant's material handling system shall not be considered "objectionable" by Landlord. Outside storage, including without limitation, storage of non-operable trucks and other non-operable vehicles, is prohibited without Landlord's prior written consent; provided, however, that subject to applicable Legal Requirements, Tenant shall be permitted to park trucks and trailers used in Tenant's business operations on and from the Premises overnight at the truck docks of the Premises and Tenant's customers shall be permitted to park their vehicles overnight from time to time in the parking areas of the Premises, provided such customer's vehicles and such trucks and trailers are at all times in operable condition and there is no interference with the ingress and egress of the Project. Except as otherwise set forth in the Lease, Tenant, at its sole expense, shall use and occupy the Premises in compliance with all laws, including, without limitation, the Americans With Disabilities Act, orders, judgments, ordinances, regulations, codes, directives, permits, licenses, covenants and restrictions

now or hereafter applicable to the Premises (collectively, "Legal Requirements"). Tenant shall, at its expense, make any alterations or modifications, within or without the Premises, that are required by Legal Requirements related to Tenant's specific use or occupation of the Premises. Tenant will not use or permit the Premises to be used for any purpose or in any manner that would void Tenant's or Landlord's insurance, increase the insurance risk, or cause the disallowance of any sprinkler credits. If any increase in the cost of any insurance on the Premises or the Project is caused by Tenant's use or occupation of the Premises, or because Tenant vacates the Premises, then Tenant shall pay the amount of such increase to Landlord. Any occupation of the Premises by Tenant prior to the Commencement Date shall be subject to all obligations of Tenant under this Lease.

Notwithstanding anything contained herein to the contrary, Tenant's obligations hereunder shall relate only to the interior of the Premises and any changes to the Premises or the Building that relate solely to the specific manner of use of the Premises by Tenant, and Landlord shall make all other additions to or modifications of the Premises required from time to time by Legal Requirements. The cost of such additions or modifications made by Landlord shall be included in Operating Expenses pursuant to Paragraph 6 of this Lease, except for those additions or modifications which are Landlord's sole responsibility pursuant to the provisions of this Lease.

Landlord represents that the improvements constructed or installed by Landlord pursuant to the Construction Addendum attached to this Lease shall comply in all material respects with all applicable covenants or restrictions of record and all applicable laws, building codes, regulations and ordinances in effect on the Commencement Date of this Lease.

4. **Rent.** Tenant shall pay Base Rent in the amount set forth above. The first month's Base Rent (estimated at \$457,500) and the first monthly installment of estimated Operating Expenses (as hereafter defined) shall be due and payable on the Effective Date, and Tenant promises to pay to Landlord in advance, without demand, deduction or set-off, monthly installments of Base Rent on or before the first day of each calendar month succeeding the Commencement Date. Payments of Base Rent for any fractional calendar month shall be prorated. All payments required to be made by Tenant to Landlord hereunder shall be payable at such address as Landlord may specify from time to time by written notice delivered in accordance herewith. The obligation of Tenant to pay Base Rent and other sums to Landlord and the obligations of Landlord under this Lease are independent obligations. Tenant shall have no right at any time to abate, reduce, or set-off any rent due hereunder except as may be expressly provided in this Lease. If Tenant is delinquent in any monthly installment of Base Rent or estimated Operating Expenses for more than 10 days, Tenant shall pay to Landlord on demand a late charge equal to 5 percent of such delinquent sum. The provision for such late charge shall be in addition to all of Landlord's other rights and remedies hereunder or at law and shall not be construed as a penalty.

5. **Security Deposit.** Intentionally Omitted.

6. **Operating Expense Payments.** During each month of the Lease Term, on the same date that Base Rent is due, Tenant shall pay Landlord an amount equal to 1/12 of the annual cost, as estimated by Landlord from time to time, of the Operating Expenses for the Premises. Payments thereof for any fractional calendar month shall be prorated. The term "Operating Expenses" means all costs and expenses incurred by Landlord with respect to the ownership, maintenance, and operation of the Premises including, but not limited to costs of: Taxes (hereinafter defined) and fees payable to tax consultants and attorneys for consultation and contesting taxes; insurance; maintenance, repair and replacement of the Premises, including without limitation, paving and parking areas, non-structural areas of the roof (including the roof membrane), alleys, and driveways, mowing, landscaping, exterior painting, amounts paid to contractors and subcontractors for work or services performed in connection with any of the foregoing; charges or assessments of any association to which the Premises is, or may in the future be,

subject to; property management fees payable to an independent property manager, but excluding property management fees paid to Landlord or any affiliate of Landlord; security services, if any; trash collection, sweeping and removal; and additions or alterations made by Landlord to the Premises in order to comply with Legal Requirements enacted after the Commencement Date (other than those expressly required herein to be made by and paid for exclusively by Tenant or Landlord) or that are appropriate to the continued operation of the Premises as a warehouse and distribution facility in the market area. The cost of additions or alterations or repairs that are required to be capitalized for federal income tax purposes shall be amortized on a straight line basis over a period equal to the useful life thereof for federal income tax purposes. Operating Expenses do not include amortization for capital repairs and capital replacements required to be made by Landlord under Paragraph 10 of this Lease, costs of Restoration to the extent of Net Proceeds received by Landlord with respect thereto, or leasing commissions. Further, Operating Expenses shall not mean or include: (i) costs incurred in connection with the initial construction of the Premises, or correction of defects in design or construction; (ii) interest, principal, or other payments on account of any indebtedness that is secured by any encumbrance on any part of the Premises, or rental or other payments under any ground lease, or any payments in the nature of returns on or of equity of any kind; (iii) costs of selling, syndicating, financing, mortgaging or hypothecating any part of or interest in the Premises; (iv) taxes on the income of Landlord or Landlord's franchise taxes (unless any of said taxes are hereafter instituted by applicable taxing authorities in substitution for ad valorem real property taxes); (v) depreciation; (vi) Landlord's overhead costs, including equipment, supplies, accounting and legal fees, rent and other occupancy costs or any other costs associated with the operation or internal organization and function of Landlord as a business entity (but this provision does not prevent the payment of a management fee to Landlord as provided in this Paragraph 6); (vii) fees or other costs for professional services provided by space planners, architects, engineers, and other similar professional consultants, real estate commissions, and marketing and advertising expenses; (viii) costs of defending or prosecuting litigation with any party, unless a favorable judgment would reduce or avoid an increase in Operating Expenses, or unless the litigation is to enforce compliance with Rules and Regulations of the Project, or other standards or requirements for the general benefit of the tenants in the Project; (ix) costs incurred as a result of Landlord's violation or breach of this Lease or of any other lease, contract, law or ordinance, including fines and penalties; (x) late charges, interest or penalties of any kind for late or other improper payment of any public or private obligation, including ad valorem taxes; (xi) costs of removing Hazardous Materials or of correcting any other conditions in order to comply with any environmental law or ordinance (but this exclusion shall not constitute a release by Landlord of Tenant for any such costs for which Tenant is liable pursuant to Paragraph 30 of this Lease); (xii) costs for which Landlord is reimbursed from any other source; (xiii) costs related to any building or land not included in the Premises; (xiv) the part of any costs or other sum paid to any affiliate of Landlord that may exceed the fair market price or cost generally payable for substantially similar goods or services in the area of the Premises; (xv) bad debt expenses; (xvi) costs arising from Landlord's charitable or political contributions, if any; and (xvii) the cost of Landlord's compliance with the provisions of Paragraphs 2, 3 or Addendum 3 hereof, or any other costs which are charged to Landlord and not to be borne by Tenant under the terms of the Lease.

Notwithstanding anything contained herein to the contrary, the property management fees payable to any independent property manager (which excludes Landlord or any affiliate of Landlord), as set forth in this Paragraph 6, shall not exceed 2% of the gross monthly revenues collected from Tenant.

Landlord shall provide Tenant within 90 days following the final day of the calendar year Landlord's itemized year-end operating expense reconciliation reports which reference and include all applicable Operating Expenses for such year. Upon Tenant's written request (which request shall be limited to once in a calendar year), Landlord shall provide photocopies of invoices, bills and other verification to substantiate Operating Expenses. If Tenant's total payments of estimated Operating Expenses for any year are less than the actual Operating Expenses for such year, then Tenant shall pay the

difference to Landlord within 30 days after demand, and if more, then Landlord shall retain such excess and credit it against Tenant's next payment of Operating Expenses. For purposes of calculating Operating Expenses, a year shall mean a calendar year except the first year, which shall begin on the Commencement Date, and the last year, which shall end on the expiration of this Lease.

7. **Utilities.** Tenant shall pay for all water, gas, electricity, heat, light, power, telephone, sewer, sprinkler services, refuse and trash collection, and other utilities and services used on the Premises, all maintenance charges for utilities, and any storm sewer charges or other similar charges for utilities imposed by any governmental entity or utility provider, together with any taxes, penalties, surcharges or the like pertaining to Tenant's use of the Premises. All utilities shall be separately metered or charged directly to Tenant by the provider. No interruption or failure of utilities shall result in the termination of this Lease or the abatement of rent.

If not part of the initial construction, Landlord may, at its sole expense, install solar panels on the roof of the Premises which will generate electricity which will be supplied to the Premises (which may flow directly into the power grid established by the electrical utility provider selected by Tenant). Tenant agrees to cooperate with Landlord (at no expense to Tenant) in connection with such installation, including any metering system which Landlord may elect to install, and Tenant agrees to utilize the electrical power generated by such solar panel system when it is available. To the extent that Tenant's electrical bill is reduced (either directly or indirectly, which may be effectuated by means of credits and/or vouchers provided to Tenant by Landlord or by the electrical service provider) by virtue of Tenant's use of the electrical power generated by such solar panel system, Tenant will pay a like amount (including any applicable sales tax) to Landlord as payment for the cost of providing such electrical power; provided, however, that under no circumstances will the total amount paid to Landlord and the electrical utility provider exceed the amount which Tenant would otherwise have paid to the electrical utility provider had the solar panel system not been utilized. Payments to Landlord shall be made monthly along with the payments of Base Rent, for the cost of electrical power for the previous month. Landlord shall not be responsible to Tenant for any disruption or any other problem involving the electrical service supplied by such solar panels. Tenant acknowledges that electricity may only be provided from such solar panels during daylight and that accordingly, Tenant will still need to obtain and maintain its own electrical service (24/7) from an electrical utility provider.

8. **Taxes.** Landlord shall pay all taxes, assessments and governmental charges (collectively referred to as "Taxes") that accrue against the Premises during the Lease Term, including any increased Taxes resulting from the sale or other disposition of the Premises by Landlord, or any other change of ownership which results in the reassessment of Taxes. Taxes shall be included in the computation of Operating Expenses charged to Tenant. Landlord may contest by appropriate legal proceedings the amount, validity, or application of any Taxes or liens thereof. If Landlord fails to contest the real estate taxes, Tenant shall have the right to request Landlord to contest such taxes, and Landlord shall so contest, at Tenant's sole cost and expense (including, without limitation, Landlord's reasonable attorneys' fees and reasonable fees payable to tax consultants and attorneys for consultation and contesting taxes), if, in Landlord's reasonable judgment, such contest is warranted; provided, however, Tenant's request of such contesting of Taxes shall be limited to one request in a calendar year. Landlord shall cooperate in the institution and prosecution of any such proceedings of contesting taxes and will execute any documents reasonably required therefor. All reductions, refunds, or rebates of Taxes paid or payable by Tenant shall belong to Tenant whether as a consequence of a Tenant proceeding or otherwise. All capital levies or other taxes assessed or imposed on Landlord upon the rents payable to Landlord under this Lease and any franchise tax, any excise, transaction, sales or privilege tax, assessment, levy or charge measured by or based, in whole or in part, upon such rents from the Premises and/or the Project or any portion thereof shall be paid by Tenant to Landlord monthly in estimated installments or upon demand, at the option of Landlord, as additional rent; provided, however, in no event shall Tenant be liable for any net income

taxes imposed on Landlord unless such net income taxes are in substitution for any Taxes payable hereunder. If any such tax or excise is levied or assessed directly against Tenant, then Tenant shall be responsible for and shall pay the same at such times and in such manner as the taxing authority shall require. Tenant shall be liable for all taxes levied or assessed against any personal property or fixtures placed in the Premises, whether levied or assessed against Landlord or Tenant.

9. **Insurance.** Landlord shall maintain special form (including theft) property insurance covering the full replacement cost of the Building and other improvements on the Premises. Landlord may, but is not obligated to, maintain such other insurance and additional coverages as it may deem necessary, including, but not limited to, commercial liability insurance or rent loss insurance and earthquake insurance and terrorism insurance, if such insurance is customarily required by lenders with respect to comparable buildings in the market area of the Premises, and if the cost thereof is commercially reasonable. All such insurance shall be included as part of the Operating Expenses charged to Tenant. The Building (and such other improvements) may be included in a blanket policy (in which case the cost of such insurance allocable to the Building and such other improvements will be determined by Landlord based upon the insurer's cost calculations). Tenant shall also reimburse Landlord for any increased premiums or additional insurance which Landlord reasonably deems necessary as a result of Tenant's use of the Premises.

Tenant, at its expense, shall maintain during the Lease Term: all risk property insurance covering the full replacement cost of all property and improvements installed or placed in the Premises by Tenant at Tenant's expense; worker's compensation insurance with no less than the minimum limits required by law; employer's liability insurance with such limits as required by law; and commercial liability insurance, with a minimum limit of \$1,000,000 per occurrence and a minimum umbrella limit of \$1,000,000, for a total minimum combined general liability and umbrella limit of \$2,000,000 (together with such additional umbrella coverage as Landlord may reasonably require) for property damage, personal injuries, or deaths of persons occurring in or about the Premises. Landlord may from time to time require reasonable increases in any such limits. The commercial liability policies shall name Landlord and any Lender as an additional insured, insure on an occurrence and not a claims-made basis, be issued by insurance companies which are reasonably acceptable to Landlord, not be cancelable unless 30 days' prior written notice shall have been given to Landlord, contain a hostile fire endorsement and a contractual liability endorsement and provide primary coverage to Landlord (any policy issued to Landlord providing duplicate or similar coverage shall be deemed excess over Tenant's policies). Such policies or certificates thereof shall be delivered to Landlord by Tenant upon commencement of the Lease Term and upon each renewal of said insurance.

Without affecting any other rights or remedies, Tenant and Landlord each hereby release and relieve the other, and waive their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to the perils required to be insured against herein. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance carriers waive any right to subrogation that such companies may have against Landlord or Tenant, as the case may be, so long as the insurance is not invalidated thereby.

Except in the case of negligence or breach of this Lease by Landlord or its agents, neither Landlord nor its agents shall be liable under any circumstances for: (i) injury or damage to the person or goods, wares, merchandise or other property of Tenant, Tenant's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, indoor air quality, the presence of mold or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the Project or from other sources or places, (ii) injury to Tenant's business or for any loss of income or profit therefrom.

10. **Landlord's Repairs.** Landlord shall maintain, at its expense (and not as part of Operating Expenses), the structural components of the roof, foundation footings (excluding the slab), and exterior walls of the Building in good repair, reasonable wear and tear and uninsured losses and damages caused by Tenant, its agents and contractors excluded. The term "walls" as used in this Paragraph 10 shall not include windows, glass or plate glass, doors or overhead doors, special store fronts, dock bumpers, dock plates or levelers, or office entries. Tenant shall promptly give Landlord written notice of any repair required by Landlord pursuant to this Paragraph 10, after which Landlord shall have a reasonable opportunity to repair.

Landlord shall also be responsible for the repair, maintenance and upkeep of the non-structural portions of the roof (including skylights), exterior walls (including exterior wall painting), and for the upkeep and maintenance (in accordance with applicable Legal Requirements) of the areas of the Premises which are subject to the Water Quality Management Plan. The costs and expenses of the foregoing shall be included in the computation of Operating Expenses charged to Tenant.

In the event of an emergency, Tenant shall have the right to make such temporary, emergency repairs (and only such temporary, emergency repairs) to the roof, foundation or exterior walls of the Building as may be reasonably necessary to prevent material damage to Tenant's property at the Premises and/or personal injury to Tenant's employees at the Premises (provided Tenant first attempts to notify Landlord telephonically of such emergency and notifies Landlord of such circumstances in writing as soon as practicable thereafter). In such event, Landlord shall reimburse Tenant for the reasonable, out-of-pocket costs actually incurred by Tenant in making such repairs. If Landlord fails to reimburse Tenant for the reasonable, out-of-pocket costs incurred by Tenant in making such repairs, up to but not to exceed \$25,000.00 with respect to such emergency, within 30 days after demand therefor, accompanied by supporting evidence of the costs incurred by Tenant, then Tenant may bring an action for damages against Landlord to recover such costs, together with interest thereof at the rate provided for in Paragraph 37(j) of the Lease, and reasonable attorney's fees incurred by Tenant in bringing such action for damages. In no event, however, shall Tenant have a right to terminate the Lease.

11. **Tenant's Repairs.** Subject to Landlord's obligations as set forth in Paragraph 10 of this Lease, and subject to the provisions of Paragraphs 15 and 16, and subject to the right of Landlord set forth below in this Paragraph 11, Tenant, at its expense, shall repair, replace and maintain in good condition, reasonable wear and tear, and losses and damages caused by Landlord, its agents and contractors excepted, all portions of the Premises including, without limitation, dock and loading areas, truck doors, plumbing, water and sewer lines up to the public right-of-way, entries, doors, ceilings, windows, interior walls, interior side of demising walls, heating, ventilation and air conditioning systems, the fire sprinklers and fire protection systems, the slab (other than structural defects in the slab), the parking areas, driveways, alleys, and all landscaped areas and grounds. Such repair and replacements include capital expenditures and repairs whose benefit may extend beyond the Lease Term. Heating, ventilation and air conditioning systems shall be maintained at Tenant's expense pursuant to maintenance service contracts entered into by Tenant. The scope of services and contractors under such maintenance contracts shall be reasonably approved by Landlord. If Tenant fails to perform any repair or replacement for which it is responsible, Landlord may perform such work and be reimbursed by Tenant within 10 days after demand therefor. Subject to Paragraphs 15 and 16, Tenant shall bear the full cost of any repair or replacement to any part of the Building or other improvements to the Premises or the Project that results from damage caused by Tenant, its agents, contractors, or invitees and any repair that benefits only the Premises.

12. **Tenant-Made Alterations and Trade Fixtures.** Any alterations, additions, or improvements made by or on behalf of Tenant to the Premises ("Tenant-Made Alterations") in excess of \$50,000 shall be subject to Landlord's prior written consent, which shall not be unreasonably withheld, conditioned or delayed, provided that such alteration does not materially affect the structure or the roof of

the Building, or modify the utility systems of the Building. Tenant shall cause, at its expense, all Tenant-Made Alterations to comply with insurance requirements and with Legal Requirements and shall construct at its expense any alteration or modification required by Legal Requirements as a result of any Tenant-Made Alterations. All Tenant-Made Alterations shall be constructed in a good and workmanlike manner by contractors reasonably acceptable to Landlord and only good grades of materials shall be used. All plans and specifications for any Tenant-Made Alterations shall be submitted to Landlord for its approval. Landlord may monitor construction of the Tenant-Made Alterations. Tenant shall reimburse Landlord for its reasonable costs in reviewing plans and specifications and in monitoring construction. Landlord's right to review plans and specifications and to monitor construction shall be solely for its own benefit, and Landlord shall have no duty to see that such plans and specifications or construction comply with applicable laws, codes, rules and regulations. Tenant shall provide Landlord with the identities and mailing addresses of all persons performing work or supplying materials, prior to beginning such construction, and Landlord may post on and about the Premises notices of non-responsibility pursuant to applicable law. Tenant shall furnish security or make other arrangements reasonably satisfactory to Landlord to assure payment for the completion of all work free and clear of liens and shall provide certificates of insurance for worker's compensation and other coverage in amounts and from an insurance company satisfactory to Landlord protecting Landlord against liability for personal injury or property damage during construction. Upon completion of any Tenant-Made Alterations, Tenant shall deliver to Landlord sworn statements setting forth the names of all contractors and subcontractors who did work on the Tenant-Made Alterations and final lien waivers from all such contractors and subcontractors. Upon surrender of the Premises, all Tenant-Made Alterations and any leasehold improvements constructed by Landlord or Tenant shall remain on the Premises as Landlord's property, except to the extent Landlord requires removal at Tenant's expense of any such items or Landlord and Tenant have otherwise agreed in writing in connection with Landlord's consent to any Tenant-Made Alterations. Upon Tenant's written request, Landlord shall provide Tenant, at the time of Tenant's request for approval of Tenant-Made Alterations, a list of which Tenant-Made Alterations Landlord will require Tenant to remove upon surrender of the Premises. Tenant shall repair any damage caused by such removal.

Tenant, at its own cost and expense and without Landlord's prior approval, may erect such shelves, bins, machinery and trade fixtures (collectively "Trade Fixtures") in the ordinary course of its business provided that such items do not alter the basic character of the Premises, do not overload or damage the Premises, and may be removed without injury to the Premises, and the construction, erection, and installation thereof complies with all Legal Requirements and with Landlord's requirements set forth above. Upon surrender or vacating of the Premises, Tenant shall remove its Trade Fixtures and shall repair any damage caused by such removal.

13. **Signs and Roof.** Tenant shall not make any changes to the exterior of the Premises, install any exterior lights, decorations, balloons, flags, pennants, banners, or painting, or erect or install any signs, windows or door lettering, placards, decorations, or advertising media of any type which can be viewed from the exterior of the Premises, without Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed. Without limiting the generality of the foregoing, Tenant may not paint its name on the roof of the Building. Upon surrender or vacation of the Premises, Tenant shall have removed all signs and repair, paint, and/or replace the building facia surface to which its signs are attached. Tenant shall obtain all applicable governmental permits and approvals for sign and exterior treatments. All signs, decorations, advertising media, blinds, draperies and other window treatment or bars or other security installations visible from outside the Premises shall be subject to Landlord's approval and conform in all respects to Landlord's requirements. The use of the roof shall be reserved exclusively to Landlord for any use which does not interfere with Tenant's business operations including, but not limited to the installation of solar panels (as described in Section 7) or leasing space to cellular telephone service providers for cell tower placement.

14. **Parking.** Tenant shall be entitled to parking only within the boundaries of the Premises which are designated as parking areas on the Site Plan.

15. **Damage and Destruction.** If at any time during the Lease Term the Premises are damaged by a fire or other casualty, Landlord shall notify Tenant within 30 days after such damage as to the amount of time Landlord reasonably estimates it will take to restore the Premises.

(a) If the Premises are damaged by fire or other casualty covered by insurance which Landlord is required to carry hereunder (and for which there are sufficient insurance proceeds available, excluding any deductible, to repair the damage), then Landlord shall, subject to Force Majeure events and delays arising from the collection of insurance proceeds, repair such damage (excluding the improvements installed by Tenant or by Landlord and paid by Tenant) within 9 months and this Lease shall continue in full force and effect. Tenant at Tenant's expense shall promptly perform, subject to delays arising from the collection of insurance proceeds, or from Force Majeure events, all repairs or restoration not required to be done by Landlord. If the Premises are damaged by fire or other casualty and there is no insurance or insufficient insurance proceeds (excluding any deductible) to repair the Premises, then Landlord may, at its option, either terminate this Lease, by giving notice to Tenant within 30 days of the date of damage, or repair such damage in the same manner as if there had been sufficient insurance proceeds available, at Landlord's expense, and if Landlord so elects to repair, then the Lease shall continue in full force and effect. Landlord's failure to deliver a termination notice to Tenant as aforesaid, shall be deemed Landlord's election to repair the Premises.

(b) If the Premises are damaged during the last 18 months of the Lease Term, and if the restoration time is estimated to exceed 6 months and such damage materially interferes with Tenant's use of the Premises, Tenant may elect to terminate this Lease upon notice to Landlord given no later than 30 days after Tenant's receipt of Landlord's written notice of its estimate of the amount of time it will take to repair the Premises. If Tenant elects not to terminate this Lease or if Landlord estimates that the repair will take 6 months or less, then, Landlord shall promptly repair the Premises excluding the improvements installed by Tenant or by Landlord and paid by Tenant, subject to delays arising from the collection of insurance proceeds from Force Majeure events. Tenant at Tenant's expense shall promptly perform, subject to delays arising from the collection of insurance proceeds, or from Force Majeure events, all repairs or restoration not required to be done by Landlord and shall promptly re-enter the Premises and commence doing business in accordance with this Lease.

(c) Notwithstanding the foregoing, either party may terminate this Lease if the Premises are damaged during the last 9 months of the Lease Term and Landlord reasonably estimates that it will take more than one month to repair such damage. Base Rent and Operating Expenses shall be abated for the period of repair and restoration in the proportion which the area of the Premises, if any, which is not usable by Tenant bears to the total area of the Premises. Unless Tenant has terminated the Lease pursuant to this Section 15, such abatement shall be the sole remedy of Tenant.

(d) If Landlord shall be obligated to repair or restore the Premises under the provisions of this Section 15 and shall not complete the restoration within the estimated or required time as provided above, Tenant may, at its election, give written notice to Landlord and to any Lenders of which Tenant has actual notice of Tenant's election to use the proceeds of such insurance to perform the necessary repairs or restorations of the Premises. If Tenant gives such notice to Landlord and such Lenders and such repair or restoration is not commenced within 60 days after receipt of such notice, then Tenant shall be entitled to take over the repairs or restoration and to use all available insurance proceeds for such purposes. If Landlord or a lender completes the repair or restoration of the Premises within 60 days after receipt of such notice, Tenant shall not have such right. "Commence" as used in this Paragraph shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

(e) In the event Landlord fails to perform any terms, covenants, conditions, or warranties under this Lease or under applicable law, beyond the applicable cure period, then Tenant shall have the right, but not the obligation to make the necessary and applicable repairs or to take the necessary appropriate action, on behalf of Landlord, and Landlord shall credit Tenant's Base Rent for the cost of such repairs.

(f) Tenant hereby waives the provisions of California Civil Code Sections 1932(2) and 1933(4), to the extent that they are inconsistent with the provisions of this Paragraph.

16. **Condemnation.**

(a) Immediately upon obtaining knowledge of the institution of any proceeding which may result in the transfer of title to all or a portion of the Premises by condemnation or other eminent domain proceeding, or by reason of any agreement with any potential condemning authority in settlement of or under any such proceedings (each, a "Taking"), Tenant shall notify Landlord thereof and Landlord (and Landlord's Lender, if any) shall be entitled to participate in any such proceeding at Tenant's expense. Landlord, immediately upon obtaining knowledge of the institution of any proceeding which may result in Taking, shall notify Tenant thereof and Tenant shall have the right to participate in such proceeding at its own expense. Tenant hereby irrevocably assigns to Landlord any award or payment in respect of any Taking, except that Tenant does not assign to Landlord any award or payment on account of Tenant's Trade Fixtures or other tangible personal property, moving expenses and similar claims which do not decrease the award to Landlord, and Tenant shall have a right to make a separate claim therefore against the condemning authority.

(b) If (i) the entire Premises or (ii) at least 15% of the floor area of the Premises, the loss of which, in any case, even after Restoration (meaning the restoration of the Premises as nearly as possible to the same physical condition as existed immediately prior to the Taking) would, in Tenant's reasonable business judgment, be substantially and materially adverse to the business operations of Tenant, or (iii) access to the Premises that exists as of the date hereof (unless sufficient access can be available after Restoration at a reasonable cost to Tenant in excess of the "Net Award", being the entire award paid by reason of the Taking, less actual and reasonable costs incurred in collecting same, or (iv) the number of parking spaces that would, if eliminated, reduce the total number required by Legal Requirements (unless sufficient replacement parking spaces can be provided on the Premises to satisfy such Legal Requirements at a reasonable cost to Tenant in excess of the Net Award), shall be subject of a Taking, then Tenant shall have the right, exercisable within thirty (30) days after the Taking has occurred, to serve Tenant's Termination Notice of its intention to terminate this Lease the Termination Date, which shall be no sooner than thirty (30) days after the date of Tenant's Termination Notice and not later than ninety (90) days after the Tenant's Termination Notice.

In the event that Tenant shall timely serve Tenant's Termination Notice upon Landlord, this Lease and the Lease Term hereof shall terminate on the Termination Date.

(c) In the event of any Taking of part of the Premises which does not result in a termination of this Lease, the Net Award of such Taking shall be retained by Landlord, unless if separately awarded to Tenant, and, promptly after such Taking, Tenant shall commence and diligently continue to perform the Restoration whether or not the Net Award shall be sufficient to do so.

Upon the payment to Landlord of the Net Award of the Taking which falls within the provisions of this subparagraph (c), Landlord (and Landlord's Lender, if any) shall, to the extent received, make that portion of the Net Award equal to the cost of Restoration (the "Restoration Award") available to Tenant for Restoration, the balance remaining (the "Net Surplus Award") shall be the property of Landlord, and shall be applied, at Landlord's option, as follows:

(i) The Net Surplus Award shall be retained by Landlord, in which event the Base Rent becoming due after Landlord receives the Net Surplus Award, but exclusive of any extended Term for which Tenant had not exercised its extension option as of the date Tenant received notice of such Taking, shall be reduced by an amount which bears the same proportion to the Base Rent payable immediately prior to such Taking as the fair market rent of the portion of the Premises so taken shall bear to the fair market rent of the whole of the Premises immediately prior to such Taking.

(ii) Tenant shall receive that portion of the Net Surplus Award equal to the present value (calculated at a discount rate of nine percent (9%) of the reductions in the Base Rent, exclusive of any extended Terms for which Tenant had not exercised its extension option as of the date Tenant received notice of such Taking, that would have occurred had Landlord elected to apply the Net Surplus Award under subparagraph (i) above; that portion of the Net Surplus Award in excess of the amount so received by Tenant shall be retained by Landlord; and the Base Rent shall not be reduced.

(d) Except with respect to an award or payment to which Tenant is entitled pursuant to the foregoing provisions of this Paragraph no agreement with any condemning authority in settlement of or under threat of any condemnation or other eminent domain proceedings shall be made by either Landlord or Tenant without the written consent of the other, which consent shall not be reasonably withheld, conditioned or delayed provided such award or payment is applied in accordance with this Lease.

(e) Notwithstanding anything to the contrary set forth herein after a Taking which does not result in the termination of this Lease, the Monthly Base Rent and Operating Expense Payments and other charges, if any, due hereunder shall be reduced in the same proportion as the rentable floor area of the Premises taken bears to the original rentable floor area of the Premises prior to such taking.

17. **Assignment and Subletting.** Without Landlord's prior written consent, which Landlord shall not unreasonably withhold, condition or delay, Tenant shall not assign this Lease or sublease the Premises or any part thereof or mortgage, pledge, or hypothecate its leasehold interest or grant any concession or license within the Premises and any attempt to do any of the foregoing shall be void and of no effect. For purposes of this paragraph, a transfer of the ownership interests controlling Tenant shall be deemed an assignment of this Lease unless such ownership interests are publicly traded or unless such transfers do not result in a loss of such control. Notwithstanding the above, Tenant may assign or sublet the Premises, or any part thereof, to any entity controlling Tenant, controlled by Tenant or under common control with Tenant (a "Tenant Affiliate"), without the prior written consent of Landlord, but upon notice to Landlord, and provided that any Tenant Affiliate which is assignee assumes in writing all of Tenant's obligations under the Lease and any Tenant Affiliate which is a subtenant executes a sublease which complies with the requirements below. Notwithstanding the above, concurrently with the execution of this Lease, Tenant shall enter into a sublease of 30,000 square feet of the Premises with Highland Fairview (or one of its affiliates). The sublease shall be in substantially the form of Exhibit "C" attached hereto. The prior written consent of Landlord to such sublease shall not be required, provided that the sublease shall remain subordinate to this Lease. Tenant shall reimburse Landlord for all of Landlord's reasonable out-of-pocket expenses in connection with any assignment or sublease.

It shall be reasonable for the Landlord to withhold its consent to any assignment or sublease in any of the following instances: (i) an Event of Default has occurred and is continuing that would not be cured upon the proposed sublease or assignment; (ii) the assignee or sublessee does not have a net worth calculated according to generally accepted accounting principles at least equal to \$50 million immediately prior to such assignment or sublease; (iii) the intended use of the Premises by the assignee or sublessee is not reasonably satisfactory to Landlord; (iv) the identity or business reputation of the assignee or sublessee will, in the good faith judgment of Landlord, tend to damage the goodwill or reputation of the Project; (v) in the case of a sublease, the subtenant has not acknowledged that the Lease controls over any inconsistent provision in the sublease; or (vi) the proposed assignee or sublessee is a governmental agency. Tenant and Landlord acknowledge that each of the foregoing criteria is reasonable as of the date of execution of this Lease. The foregoing criteria shall not exclude any other reasonable basis for Landlord to refuse its consent to such assignment or sublease. Any approved assignment or sublease shall be expressly subject to the terms and conditions of this Lease. Tenant shall provide to Landlord all information concerning the assignee or sublessee as Landlord may request.

Notwithstanding any assignment or subletting, Tenant and any guarantor or surety of Tenant's obligations under this Lease shall at all times remain fully responsible and liable for the payment of the rent and for compliance with all of Tenant's other obligations under this Lease (regardless of whether Landlord's approval has been obtained for any such assignments or sublettings). In the event that the rent due and payable by a sublessee or assignee (or a combination of the rental payable under such sublease or assignment plus any bonus or other consideration therefor or incident thereto) exceeds the rental payable under this Lease (prorated if less than 100% of the Premises are subleased or assigned), then Tenant shall be bound and obligated to pay Landlord as additional rent hereunder 50% of all such excess rental and other excess consideration within 10 days following receipt thereof by Tenant.

If this Lease be assigned or if the Premises be subleased (whether in whole or in part) or in the event of the mortgage, pledge, or hypothecation of Tenant's leasehold interest or grant of any concession or license within the Premises or if the Premises be occupied in whole or in part by anyone other than Tenant, then upon a default by Tenant hereunder Landlord may collect rent from the assignee, sublessee, mortgagee, pledgee, party to whom the leasehold interest was hypothecated, concessionee or licensee or other occupant and, except to the extent set forth in the preceding paragraph, apply the amount collected to the next rent payable hereunder; and all such rentals collected by Tenant shall be held in trust for Landlord and immediately forwarded to Landlord. No such transaction or collection of rent or application thereof by Landlord, however, shall be deemed a waiver of these provisions or a release of Tenant from the further performance by Tenant of its covenants, duties, or obligations hereunder.

18. **Indemnification.** Except for the gross negligence or willful misconduct of Landlord, its agents, employees or contractors, and to the extent permitted by law, Tenant agrees to indemnify, defend and hold harmless Landlord, and Landlord's members and their respective agents, employees and contractors and any Lender, from and against any and all losses, liabilities, damages, costs and expenses (including attorneys' fees) resulting from claims by third parties for injuries to any person and damage to or theft or misappropriation or loss of property occurring in or about the Premises and arising from the use and occupancy of the Premises or from any activity, work, or thing done, permitted or suffered by Tenant in or about the Premises or due to any other act or omission of Tenant, its subtenants, assignees, invitees, employees, contractors and agents. The furnishing of insurance required hereunder shall not be deemed to limit Tenant's obligations under this Paragraph 18.

Except for the gross negligence or willful misconduct of Tenant, its agents, employees or contractors, and to the extent permitted by law, Landlord agrees to indemnify, defend and hold harmless Tenant, and Tenant's shareholders, directors, officers, agents, employees and contractors, from and against any and all losses, liabilities, damages, costs and expenses (including attorneys' fees) resulting from claims by third parties for injuries to any person and damage to or loss of property occurring in or about the Premises or the Project resulting from the grossly negligent or willful acts or omissions of Landlord.

The provisions of this paragraph shall survive termination of the Lease with respect to events occurring prior to such termination.

19. **Inspection and Access.** Landlord and its agents, representatives, and contractors may enter the Premises at any reasonable time to inspect the Premises and to make such repairs as may be required or permitted pursuant to this Lease and for any other business purpose. Landlord and Landlord's representatives may enter the Premises during business hours for the purpose of showing the Premises to prospective purchasers and, during the last two years of the Lease Term, to prospective tenants. Landlord may erect a suitable sign on the Premises stating the Premises are available to let or that the Premises is available for sale. Landlord may grant easements, make public dedications, designate common areas and create restrictions on or about the Premises, provided that no such easement, dedication, designation or restriction materially interferes with Tenant's use or occupancy of the Premises. At Landlord's request, Tenant shall execute such instruments as may be necessary for such easements, dedications or restrictions.

20. **Quiet Enjoyment.** Upon payment by Tenant of the rent for the Premises and the observance and performance of all of the covenants, conditions and provisions on Tenant's part to be observed and performed under this Lease, Tenant shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. If Tenant shall not be in default beyond any applicable grace period provided herein, Tenant shall peaceably and quietly occupy and enjoy the full possession and use of the Premises and the use of the Common Areas.

21. **Surrender.** Upon expiration of the Lease Term or earlier termination of the Lease, Tenant shall surrender the Premises to Landlord in the same condition as received, broom clean, ordinary wear and tear and casualty loss and condemnation covered by Paragraphs 15 and 16, and Tenant's removal or non-removal of Tenant-Made Alterations pursuant to the provisions of Paragraph 12 excepted. Any Trade Fixtures, Tenant-Made Alterations and property not so removed by Tenant as permitted or required herein shall be deemed abandoned and may be stored, removed, and disposed of by Landlord at Tenant's expense, and Tenant waives all claims against Landlord for any damages resulting from Landlord's retention and disposition of such property. All obligations of Tenant hereunder not fully performed as of the termination of the Lease Term shall survive the termination of the Lease Term, including without limitation, indemnity obligations, payment obligations with respect to Operating Expenses, and obligations concerning the condition and repair of the Premises.

22. **Holding Over.** If Tenant retains possession of the Premises after the expiration of the Lease Term, unless otherwise agreed in writing, such possession shall be subject to immediate termination by Landlord at any time, and all of the other terms and provisions of this Lease (excluding any expansion or renewal option or other similar right or option) shall be applicable during such holdover period, except that Tenant shall pay Landlord from time to time, upon demand, as Base Rent for the holdover period, an amount equal to double the Base Rent in effect on the termination date, computed on a monthly basis for each month or part thereof during such holding over. All other payments shall continue under the terms of this Lease. In addition, Tenant shall be liable for all damages incurred by Landlord as a result of such holding over. No holding over by Tenant, whether with or without consent of Landlord, shall operate to extend this Lease except as otherwise expressly provided, and this Paragraph

22 shall not be construed as consent for Tenant to retain possession of the Premises. For purposes of this Paragraph 22, "possession of the Premises" shall continue until, among other things, Tenant has delivered all keys to the Premises to Landlord, Landlord has complete and total dominion and control over the Premises, and Tenant has completely fulfilled all obligations required of it upon termination of the Lease as set forth in this Lease, including, without limitation, those concerning the condition and repair of the Premises.

23. **Events of Default.** Each of the following events shall be an event of default ("Event of Default") by Tenant under this Lease:

(i) Tenant shall fail to pay any installment of Base Rent or any other payment required herein when due, and such failure shall continue for a period of 10 days from the date of written notice thereof.

(ii) Tenant or any guarantor or surety of Tenant's obligations hereunder shall (A) make a general assignment for the benefit of creditors; (B) commence any case, proceeding or other action seeking to have an order for relief entered on its behalf as a debtor or to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or of any substantial part of its property (collectively a "proceeding for relief"); (C) become the subject of any proceeding for relief which is not dismissed within 60 days of its filing or entry; or (D) die or suffer a legal disability (if Tenant, guarantor, or surety is an individual) or be dissolved or otherwise fail to maintain its legal existence (if Tenant, guarantor or surety is a corporation, partnership or other entity).

(iii) Any insurance required to be maintained by Tenant pursuant to this Lease shall be cancelled or terminated or shall expire or shall be reduced or materially changed, except, in each case, as permitted in this Lease.

(iv) Tenant shall abandon or vacate the Premises or fail to continuously operate its business at the Premises for the permitted use set forth herein, whether or not Tenant is in monetary or other default under this Lease. Notwithstanding anything contained herein to the contrary, Tenant's abandoning, vacating, or failing to continuously operate its business at the Premises shall not constitute an Event of Default if, prior to vacating, abandoning, or ceasing to continuously operate its business at the Premises, Tenant has made arrangements reasonably acceptable to Landlord to (a) insure that the insurance for the Premises will not be voided or cancelled with respect to the Premises as a result of such vacancy, abandonment, or ceasing of operations, (b) insure that the Premises are reasonably secured from theft and vandalism, and (c) insure that the Premises will be properly maintained after such vacation. Tenant shall inspect the Premises at least once each month and report monthly in writing to Landlord in the event the condition of the Premises has materially changed.

(v) Tenant shall attempt or there shall occur any assignment, subleasing or other transfer of Tenant's interest in or with respect to this Lease except as otherwise permitted in this Lease.

(vi) Tenant shall fail to discharge any lien placed upon the Premises in violation of this Lease within 30 days after any such lien or encumbrance is filed against the Premises.

(vii) As long as Tenant (or an affiliate of Tenant) is a member of Landlord, any default by Tenant, or an affiliate of Tenant, under Landlord's Operating Agreement (beyond any applicable notice or cure period set forth therein).

(viii) Tenant shall fail to comply with any provision of this Lease other than those specifically referred to in this Paragraph 23, and except as otherwise expressly provided herein, such default shall continue for more than 30 days after Landlord shall have given Tenant written notice of such default, or if performance is not possible within such period, any failure of Tenant to commence performance within such period and to diligently prosecute such performance to completion.

(ix) Tenant shall default (beyond any applicable notice and/or cure period) under that certain Lease dated September 25, 2007 (as amended) between Landlord and Tenant for approximately 82.59 acres of land adjacent to the Premises (the "Prior Lease").

24. **Landlord's Remedies.** Upon each occurrence of an Event of Default and so long as such Event of Default shall be continuing, Landlord may at any time thereafter at its election: terminate this Lease or Tenant's right of possession, (but Tenant shall remain liable as hereinafter provided) and/or pursue any other remedies at law or in equity. Upon the termination of this Lease or termination of Tenant's right of possession, it shall be lawful for Landlord, without formal demand or notice of any kind, to re-enter the Premises by summary dispossession proceedings or any other action or proceeding authorized by law and to remove Tenant and all persons and property therefrom. If Landlord re-enters the Premises, Landlord shall have the right to keep in place and use, or remove and store, all of the furniture, fixtures and equipment at the Premises.

Except as otherwise provided in the next paragraph, if Tenant breaches this Lease and abandons the Premises prior to the end of the term hereof, or if Tenant's right to possession is terminated by Landlord because of an Event of Default by Tenant under this Lease, this Lease shall terminate. Upon such termination, Landlord may recover from Tenant the following, as provided in Section 1951.2 of the Civil Code of California: (i) the worth at the time of award of the unpaid Base Rent and other charges under this Lease that had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the reasonable value of the unpaid Base Rent and other charges under this Lease which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; (iii) the worth at the time of the award by which the reasonable value of the unpaid Base Rent and other charges under this Lease for the balance of the term of this Lease after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; and (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or that in the ordinary course of things would be likely to result therefrom. As used herein, the following terms are defined: (a) the "worth at the time of award" of the amounts referred to in Sections (i) and (ii) is computed by allowing interest at the lesser of 18 percent per annum or the maximum lawful rate. The "worth at the time of award" of the amount referred to in Section (iii) is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent; (b) the "time of award" as used in clauses (i), (ii), and (iii) above is the date on which judgment is entered by a court of competent jurisdiction; (c) The "reasonable value" of the amount referred to in clause (ii) above is computed by determining the mathematical product of (1) the "reasonable annual rental value" (as defined herein) and (2) the number of years, including fractional parts thereof, between the date of termination and the time of award. The "reasonable value" of the amount referred to in clause (iii) is computed by determining the mathematical product of (1) the annual Base Rent and other charges under this Lease and (2) the number of years including fractional parts thereof remaining in the balance of the term of this Lease after the time of award.

Even though Tenant has breached this Lease and abandoned the Premises, this Lease shall continue in effect for so long as Landlord does not terminate Tenant's right to possession, and Landlord may enforce all its rights and remedies under this Lease, including the right to recover rent as it becomes due. This remedy is intended to be the remedy described in California Civil Code Section 1951.4 and the following provision from such Civil Code Section is hereby repeated: "The Lessor has the remedy

described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has right to sublet or assign, subject only to reasonable limitations).” Any such payments due Landlord shall be made upon demand therefor from time to time and Tenant agrees that Landlord may file suit to recover any sums falling due from time to time. Notwithstanding any such reletting without termination, Landlord may at any time thereafter elect in writing to terminate this Lease for such previous breach.

Exercise by Landlord of any one or more remedies hereunder granted or otherwise available shall not be deemed to be an acceptance of surrender of the Premises and/or a termination of this Lease by Landlord, whether by agreement or by operation of law, it being understood that such surrender and/or termination can be effected only by the written agreement of Landlord and Tenant. Any law, usage, or custom to the contrary notwithstanding, Landlord shall have the right at all times to enforce the provisions of this Lease in strict accordance with the terms hereof; and the failure of Landlord at any time to enforce its rights under this Lease strictly in accordance with same shall not be construed as having created a custom in any way or manner contrary to the specific terms, provisions, and covenants of this Lease or as having modified the same. Tenant and Landlord further agree that forbearance or waiver by Landlord to enforce its rights pursuant to this Lease or at law or in equity shall not be a waiver of Landlord's right to enforce one or more of its rights in connection with any subsequent default. A receipt by Landlord of rent or other payment with knowledge of the breach of any covenant hereof shall not be deemed a waiver of such breach, and no waiver by Landlord of any provision of this Lease shall be deemed to have been made unless expressed in writing and signed by Landlord. To the greatest extent permitted by law, Tenant waives the service of notice of Landlord's intention to re-enter as provided for in any statute, or to institute legal proceedings to that end, and also waives all right of redemption in case Tenant shall be dispossessed by a judgment or by warrant of any court or judge. The terms “enter,” “re-enter,” “entry” or “re-entry,” as used in this Lease, are not restricted to their technical legal meanings. Any reletting of the Premises shall be on such terms and conditions as Landlord in its sole discretion may determine (including without limitation a term different than the remaining Lease Term, rental concessions, alterations and repair of the Premises, lease of less than the entire Premises to any tenant and leasing any or all other portions of the Project before reletting the Premises). Landlord shall not be liable, nor shall Tenant's obligations hereunder be diminished because of, Landlord's failure to relet the Premises or collect rent due in respect of such reletting.

25. **Tenant's Remedies/Limitation of Liability.** Landlord shall not be in default hereunder unless Landlord fails to perform any of its obligations hereunder within 30 days after written notice from Tenant specifying such failure (unless such performance will, due to the nature of the obligation, require a period of time in excess of 30 days, then after such period of time as is reasonably necessary so long as Landlord commences performing within said period and diligently prosecutes such performance to completion). Upon such failure Tenant shall have the option but not the obligation to cause such repair and deduct such reasonable amount from the Base Rent. Notwithstanding anything to the contrary contained herein, in the event of an emergency situation which effects the roof or structural integrity of the Premises, Landlord shall use its best efforts to repair such damage within five (5) days of Tenant's written notice of such event. In the event of an emergency (any event that in Tenant's reasonable opinion poses a potential threat to life and/or property), and/or in the event that Landlord shall fail to perform any of Landlord's responsibilities within the applicable cure period, then Tenant shall have the right, but not the obligation to make the necessary and appropriate repairs, or to take the appropriate action on behalf of Landlord, and Landlord shall promptly reimburse Tenant the full cost of such repairs or action. If Landlord shall fail to fully reimburse Tenant for such costs, Tenant may, but shall not be required to deduct such amounts from any amounts owing or to become owing from Tenant to Landlord. All obligations of Landlord hereunder shall be construed as covenants, not conditions; and, except as may be otherwise expressly provided in this Lease, Tenant may not terminate this Lease for breach of Landlord's obligations hereunder. All obligations of Landlord under this Lease will be binding upon Landlord only during the period of its ownership of the Premises and not thereafter. The term “Landlord” in this Lease shall mean only the owner, for the time being of the Premises, and in the event of the transfer by such owner of its interest in the Premises, such owner shall thereupon be released and discharged from all obligations of Landlord thereafter accruing, it being understood that Landlord shall not be released from

any obligations accruing prior to such transfer unless such obligations have been assumed in writing by Landlord's successor, but such obligations shall be binding during the Lease Term upon each new owner for the duration of such owner's ownership. Any liability of Landlord under this Lease shall be limited solely to its interest in the Premises, and in no event shall any personal liability be asserted against Landlord or any of Landlord's partners in connection with this Lease nor shall any recourse be had to any other property or assets of Landlord or any of Landlord's partners.

26. **Intentionally Deleted.**

27. **Subordination.** This Lease and Tenant's interest and rights hereunder are and shall be subject and subordinate at all times to the lien of any mortgage, now existing or hereafter created on or against the Project or the Premises, and all amendments, restatements, renewals, modifications, consolidations, refinancing, assignments and extensions thereof, without the necessity of any further instrument or act on the part of Tenant. Tenant agrees, at the election of the holder of any such mortgage, to attorn to any such holder. Tenant agrees upon demand to execute, acknowledge and deliver such instruments, confirming such subordination and such instruments of attornment as shall be requested by any such holder. Tenant hereby appoints Landlord attorney in fact for Tenant irrevocably (such power of attorney being coupled with an interest) to execute, acknowledge and deliver any such instrument and instruments for and in the name of the Tenant and to cause any such instrument to be recorded. Notwithstanding the foregoing, any such holder may at any time subordinate its mortgage to this Lease, without Tenant's consent, by notice in writing to Tenant, and thereupon this Lease shall be deemed prior to such mortgage without regard to their respective dates of execution, delivery or recording and in that event such holder shall have the same rights with respect to this Lease as though this Lease had been executed prior to the execution, delivery and recording of such mortgage and had been assigned to such holder. The term "mortgage" whenever used in this Lease shall be deemed to include deeds of trust, security assignments and any other encumbrances, and any reference to the "holder" of a mortgage shall be deemed to include the beneficiary under a deed of trust.

Notwithstanding the foregoing paragraph, Tenant shall not be obligated to subordinate the Lease or its interest therein to any mortgage, deed of trust or ground lease on the Project or the Premises unless concurrently with such subordination the holder of such mortgage or deed of trust or the ground lessor under such ground lease upon commercially reasonable terms including, agreeing not to disturb Tenant's possession of the Premises under the terms of the Lease in the event such holder or ground lessor acquires title to the Premises through foreclosure, deed in lieu of foreclosure or otherwise. Landlord shall use reasonable commercial efforts to obtain, at no cost to Tenant, a non-disturbance agreement from any such holder or ground lessor existing as of the Commencement Date for the benefit of Tenant in a commercially reasonable form within 20 days of the date of this Lease.

28. **Mechanic's Liens.** Tenant has no express or implied authority to create or place any lien or encumbrance of any kind upon, or in any manner to bind the interest of Landlord or Tenant in, the Premises or to charge the rentals payable hereunder for any claim in favor of any person dealing with Tenant, including those who may furnish materials or perform labor for any construction or repairs. Tenant covenants and agrees that it will pay or cause to be paid all sums legally due and payable by it on account of any labor performed or materials furnished in connection with any work performed on the Premises and that it will save and hold Landlord harmless from all loss, cost or expense based on or arising out of asserted claims or liens against the leasehold estate or against the interest of Landlord in the Premises or under this Lease. Tenant shall give Landlord immediate written notice of the placing of any lien or encumbrance against the Premises and cause such lien or encumbrance to be discharged within 30 days of the filing or recording thereof; provided, however, Tenant may contest such liens or encumbrances as long as such contest prevents foreclosure of the lien or encumbrance and Tenant causes such lien or encumbrance to be bonded or insured over in a manner satisfactory to Landlord within such 30 day period.

29. **Estoppel Certificates.** Tenant agrees, from time to time, within 10 days after request of Landlord, to execute and deliver to Landlord, or Landlord's designee, any estoppel certificate requested by Landlord, stating that this Lease is in full force and effect, the date to which rent has been paid, that Landlord is not in default hereunder (or specifying in detail the nature of Landlord's default), the termination date of this Lease and such other matters pertaining to this Lease as may be requested by Landlord. Tenant's obligation to furnish each estoppel certificate in a timely fashion is a material inducement for Landlord's execution of this Lease. No cure or grace period provided in this Lease shall apply to Tenant's obligations to timely deliver an estoppel certificate. Tenant hereby irrevocably appoints Landlord as its attorney in fact to execute on its behalf and in its name any such estoppel certificate if Tenant fails to execute and deliver the estoppel certificate within 10 days after Landlord's written request thereof.

30. **Environmental Requirements.** Except for Hazardous Material (as defined below) contained in products used by Tenant in de minimis quantities for ordinary cleaning and office purposes and equipment maintenance, Tenant shall not permit or cause any party to bring any Hazardous Material upon the Premises or transport, store, use, generate, manufacture or release any Hazardous Material in or about the Premises without Landlord's prior written consent. Tenant, at its sole cost and expense, shall operate its business in the Premises in strict compliance with all Environmental Requirements and shall remediate in a manner satisfactory to Landlord any Hazardous Materials released on or from the Premises or the Project by Tenant, its agents, employees, contractors, subtenants or invitees. Tenant shall complete and certify to disclosure statements as requested by Landlord from time to time relating to Tenant's transportation, storage, use, generation, manufacture or release of Hazardous Materials on the Premises. The term "Environmental Requirements" means all applicable present and future statutes, regulations, ordinances, rules, codes, judgments, orders or other similar enactments of any governmental authority or agency regulating or relating to health, safety, or environmental conditions on, under, or about the Premises or the environment, including without limitation, the following: the Comprehensive Environmental Response, Compensation and Liability Act; the Resource Conservation and Recovery Act; and all state and local counterparts thereto, and any regulations or policies promulgated or issued thereunder. The term "Hazardous Materials" means and includes any substance, material, waste, pollutant, or contaminant listed or defined as hazardous or toxic, under any Environmental Requirements, asbestos and petroleum, including crude oil or any fraction thereof, natural gas liquids, liquefied natural gas, or synthetic gas usable for fuel (or mixtures of natural gas and such synthetic gas). As defined in Environmental Requirements, Tenant is and shall be deemed to be the "operator" of Tenant's "facility" and the "owner" of all Hazardous Materials brought on the Premises by Tenant, its agents, employees, contractors or invitees, and the wastes, by-products, or residues generated, resulting, or produced therefrom.

Tenant shall indemnify, defend, and hold Landlord harmless from and against any and all losses (including, without limitation, diminution in value of the Premises or the Project and loss of rental income from the Premises or the Project), claims, demands, actions, suits, damages (including, without limitation, punitive damages), expenses (including, without limitation, remediation, removal, repair, corrective action, or cleanup expenses), and costs (including, without limitation, actual attorneys' fees, consultant fees or expert fees and including, without limitation, removal or management of any asbestos brought into the property by Tenant, its agents, employees, contractors, subtenants, assignees or invitees or disturbed by Tenant, its agents, employees, contractors, subtenants, assignees or invitees in breach of the requirements of this Paragraph 30, regardless of whether such removal or management is required by law) which are brought or recoverable against, or suffered or incurred by Landlord as a result of any release of Hazardous Materials for which Tenant is obligated to remediate as provided above or any other breach of the requirements under this Paragraph 30 by Tenant, its agents, employees, contractors, subtenants, assignees or invitees, regardless of whether Tenant had knowledge of such noncompliance. The obligations of Tenant under this Paragraph 30 shall survive any termination of this Lease.

Landlord shall have access to, and a right to perform inspections and tests of, the Premises to determine Tenant's compliance with Environmental Requirements, its obligations under this Paragraph 30, or the environmental condition of the Premises. Access shall be granted to Landlord upon Landlord's prior notice to Tenant and at such times so as to minimize, so far as may be reasonable under the circumstances, any disturbance to Tenant's operations. Such inspections and tests shall be conducted at Landlord's expense, unless such inspections or tests reveal that Tenant has not complied with any Environmental Requirement, in which case Tenant shall reimburse Landlord for the reasonable cost of such inspection and tests. Landlord's receipt of or satisfaction with any environmental assessment in no way waives any rights that Landlord holds against Tenant.

Landlord represents and warrants that except for information contained in the Phase I Environmental Assessment Reports prepared by LOR Environmental, Inc., and delivered to Tenant in connection with the Prior Lease, Landlord, to Landlord's knowledge without further inquiry, is unaware of any environmental conditions affecting the Premises.

Notwithstanding anything to the contrary in this Paragraph 30, Tenant shall have no liability of any kind to Landlord or any other party and Landlord shall indemnify Tenant as to Hazardous Materials on the Premises caused or permitted by Landlord, its agents, employees, contractors or invitees.

31. **Rules and Regulations.** Tenant shall, at all times during the Lease Term and any extension thereof, comply with all reasonable rules and regulations at any time or from time to time established by Landlord covering use of the Premises and the Project. The current rules and regulations are attached hereto. In the event of any conflict between said rules and regulations and other provisions of this Lease, the other terms and provisions of this Lease shall control. Landlord shall not have any liability or obligation for the breach of any rules or regulations by other tenants in the Project.

32. **Security Service.** Tenant acknowledges and agrees that, while Landlord may patrol the Project, Landlord is not providing any security services with respect to the Premises and that Landlord shall not be liable to Tenant for, and Tenant waives any claim against Landlord with respect to, any loss by theft or any other damage suffered or incurred by Tenant in connection with any unauthorized entry into the Premises or any other breach of security with respect to the Premises.

33. **Force Majeure.** Except for monetary obligations, neither Landlord nor Tenant shall be held responsible for delays in the performance of its obligations hereunder when caused by strikes, lockouts, labor disputes, acts of God, inability to obtain labor or materials or reasonable substitutes therefor, governmental restrictions, governmental regulations, governmental controls, delay in issuance of permits, enemy or hostile governmental action, acts of terrorism, civil commotion, fire or other casualty, inability to obtain financing due to general economic conditions (as opposed to conditions which are specific to the Landlord or the Project), and other causes beyond the reasonable control of Landlord or Tenant ("Force Majeure").

34. **Entire Agreement.** This Lease constitutes the complete agreement of Landlord and Tenant with respect to the subject matter hereof. No representations, inducements, promises or agreements, oral or written, have been made by Landlord or Tenant, or anyone acting on behalf of Landlord or Tenant, which are not contained herein, and any prior agreements, promises, negotiations, or representations are superseded by this Lease. This Lease may not be amended except by an instrument in writing signed by both parties hereto.

35. **Severability.** If any clause or provision of this Lease is illegal, invalid or unenforceable under present or future laws, then and in that event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby. It is also the intention of the parties to this Lease that in lieu of each clause or provision of this Lease that is illegal, invalid or unenforceable, there be added, as a part of this Lease, a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable.

36. **No Brokers.** Tenant represents and warrants to Landlord, and Landlord represents and warrants to Tenant, that it has dealt with no broker, agent or other person in connection with this transaction and that no broker, agent or other person brought about this transaction, and each of the Parties agrees to indemnify and hold the other party harmless from and against any claims by any other broker, agent or other person claiming a commission or other form of compensation by virtue of having dealt with indemnifying party with regard to this leasing transaction.

37. **Miscellaneous.**

(a) Any payments or charges due from Tenant to Landlord hereunder shall be considered rent for all purposes of this Lease.

(b) If and when included within the term "Tenant," as used in this instrument, there is more than one person, firm or corporation, each shall be jointly and severally liable for the obligations of Tenant.

(c) All notices required or permitted to be given under this Lease shall be in writing and shall be sent by registered or certified mail, return receipt requested, or by a reputable national overnight courier service, postage prepaid, or by hand delivery addressed to the parties at their addresses below. Either party may by notice given aforesaid change its address for all subsequent notices. Except where otherwise expressly provided to the contrary, notice shall be deemed given upon delivery.

(d) Except as otherwise expressly provided in this Lease or as otherwise required by law, Landlord's right to withhold any consent or approval shall not be unreasonably withheld or delayed.

(e) All payments of monetary sums due by Tenant to Landlord hereunder, including, but not limited to, Base Rent and payments of Operating Expenses, shall be deemed to be "rent".

(f) Neither this Lease nor a memorandum of lease shall be filed by or on behalf of Tenant in any public record. Landlord may prepare and file, and upon request by Landlord Tenant will execute, a memorandum of lease.

(g) The normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Lease or any exhibits or amendments hereto.

(h) The submission by Landlord to Tenant of this Lease shall have no binding force or effect, shall not constitute an option for the leasing of the Premises, nor confer any right or impose any obligations upon either party until execution of this Lease by both parties.

(i) Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires. The captions inserted in this Lease are for convenience only and in no way define, limit or otherwise describe the scope or intent of this Lease, or any provision hereof, or in any way affect the interpretation of this Lease.

(j) Any amount not paid by Tenant within 10 days after its due date in accordance with the terms of this Lease shall bear interest from such due date until paid in full at the lesser of the highest rate permitted by applicable law or 10 percent per year. It is expressly the intent of Landlord and Tenant at all times to comply with applicable law governing the maximum rate or amount of any interest payable on or in connection with this Lease. If applicable law is ever judicially interpreted so as to render usurious any interest called for under this Lease, or contracted for, charged, taken, reserved, or received with respect to this Lease, then it is Landlord's and Tenant's express intent that all excess amounts theretofore collected by Landlord be credited on the applicable obligation (or, if the obligation has been or would thereby be paid in full, refunded to Tenant), and the provisions of this Lease immediately shall be deemed reformed and the amounts thereafter collectible hereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder.

(k) Construction and interpretation of this Lease shall be governed by the laws of the State of California, excluding any principles of conflicts of laws.

(l) Time is of the essence as to the performance of Tenant's obligations under this Lease.

(m) All exhibits and addenda attached hereto are hereby incorporated into this Lease and made a part hereof. In the event of any conflict between such exhibits or addenda and the terms of this Lease, such exhibits or addenda shall control.

38. **Landlord's Lien/Subordination.** Provided Tenant is not in default under the Lease, Landlord, at the request of Tenant, agrees to subordinate Landlord's lien, if any, arising under the Lease against Tenant's property or any of Tenant's leased or financed property located on the Premises and agrees that Tenant's property or its leased or financed property shall not become part of the Premises or encumbered by a lien by Landlord regardless of the manner in which the leased or financed property may be attached or affixed to the Premises. Such subordination shall be required only if the lender or lessor shall be a bank or other financial institution or the vendor of Tenant's equipment or a financing entity related to such vendor and shall be subject to such conditions as Landlord may reasonably require. Tenant shall reimburse Landlord for all reasonable out-of-pocket expenses incurred by Landlord in negotiating and executing such agreement with Tenant's lender.

39. **Limitation of Liability of Trustees, Shareholders, Members and Officers of Landlord.** Any obligation or liability whatsoever of Landlord which may arise at any time under this Lease or any obligation or liability which may be incurred by it pursuant to any other instrument, transaction, or undertaking contemplated hereby shall not be personally binding upon, nor shall resort for the enforcement thereof be had to the property of, its members, trustees, directors, shareholders, officers, employees or agents, regardless of whether such obligation or liability is in the nature of contract, tort, or otherwise.

40. **Limitation of Liability of Directors, Shareholders, and Officers of Tenant.** Any obligation or liability whatsoever of Tenant, which may arise at any time under this Lease or any obligation or liability which may be incurred by it pursuant to any other instrument, transaction, or undertaking contemplated hereby shall not be personally binding upon, nor shall resort for the enforcement thereof be had to the property of, its directors, shareholders, officers, employees or agents, regardless of whether such obligation or liability is in the nature of contract, tort, or otherwise.

41. **Civil Code § 1938 Disclosure.** Pursuant to Section 1938 of the California Civil Code, Landlord hereby advises Tenant that as of the date of this Lease, the Premises has not undergone inspection by a Certified Access Specialist (a “CASp”). Further, pursuant to Section 1938 of the California Civil Code, Landlord notifies Tenant of the following: “A Certified Access Specialist (CASp) can inspect the Premises and determine whether the Premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the Premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the Premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant.” The parties shall mutually agree on the arrangements for the time and manner of any such CASp inspection. Landlord and Tenant hereby mutually agree that the cost of the CASp inspection will be borne by Tenant, and that Tenant shall be responsible for the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the Premises.

42. **Energy Disclosure Requirements.** Tenant will cooperate with Landlord in all reasonable respects to enable Landlord to comply with its obligations under AB-802 (or any successor statute, or any regulations promulgated thereunder, or any similar State or City law) relating to energy disclosures, and the measurement of energy efficiency by the State Resources Conservation and Development Commission and/or the Public Utilities Commission, including delivering information regarding Tenant’s energy consumption to Landlord in a format compatible with the U.S. EPA’s Energy Star Portfolio Manager. Tenant hereby specifically authorizes Moreno Valley Utility to release to Landlord any information requested by Landlord relative to Tenant’s energy consumption at the Premises.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the Effective Date.

LANDLORD:

TENANT:

HF LOGISTICS-SKX T2, LLC, a Delaware limited liability company **SKECHERS U.S.A., INC., a Delaware corporation**

By: HF Logistics I, LLC, a Delaware limited liability company

By: /s/ David Weinberg
David Weinberg, Chief Operating Officer

By: /s/ Iddo Benzeevi
Iddo Benzeevi, President and Chief Executive Officer

Address:
228 Manhattan Beach Blvd.
Manhattan Beach, CA 90266

Address:
14225 Corporate Way
Moreno Valley, CA 92553

RULES AND REGULATIONS

1. The sidewalk, entries, and driveways of the Project shall not be obstructed by Tenant, or its agents, or used by them for any purpose other than ingress and egress to and from the Premises.
2. Tenant shall not place any objects, including antennas, outdoor furniture, etc., in the parking areas, landscaped areas or other areas outside of its Premises, or on the roof of the Project.
3. Except for seeing-eye dogs, no animals shall be allowed in the offices, halls, or corridors in the Project.
4. Tenant shall not disturb the occupants of the Project or adjoining buildings by the use of any radio or musical instrument or by the making of loud or improper noises.
5. Except as otherwise set forth in the Lease, if Tenant desires telegraphic, telephonic or other electric connections in the Premises, no boring or cutting of wires will be permitted without Landlord's prior consent, which shall not be unreasonably withheld or delayed. Any such installation or connection shall be made at Tenant's expense.
6. Tenant shall not install or operate any steam or gas engine or boiler, or other mechanical apparatus (except for Tenant's material handling system) in the Premises, except as specifically approved in the Lease. The use of oil, gas or inflammable liquids for heating, lighting or any other purpose is expressly prohibited. Explosives or other articles deemed extra hazardous shall not be brought into the Project.
7. Parking any type of recreational vehicles is specifically prohibited on or about the Project. Except for the overnight parking of operative vehicles and except as permitted in the Lease, no vehicle of any type shall be stored in the parking areas at any time. In the event that a vehicle is disabled, it shall be removed within 48 hours. There shall be no "For Sale" or other advertising signs on or about any parked vehicle. All vehicles shall be parked in the designated parking areas in conformity with all signs and other markings. All parking will be open parking, and no reserved parking, numbering or lettering of individual spaces will be permitted except as specified by Landlord.
8. Tenant shall maintain the Premises free from rodents, insects and other pests.
9. Landlord reserves the right to exclude or expel from the Project any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs or who shall in any manner do any act in violation of the Rules and Regulations of the Project.
10. Tenant shall not cause any unnecessary labor by reason of Tenant's carelessness or indifference in the preservation of good order and cleanliness. Landlord shall not be responsible to Tenant for any loss of property on the Premises, however occurring, or for any damage done to the effects of Tenant by the janitors or any other employee or person.
11. Tenant shall give Landlord prompt notice of any defects in the water, lawn sprinkler, sewage, gas pipes, electrical lights and fixtures, heating apparatus, or any other service equipment affecting the Premises.
12. Except as otherwise set forth in the Lease, Tenant shall not permit storage outside the Premises, including without limitation, outside storage of trucks and other vehicles, or dumping of waste or refuse or permit any harmful materials to be placed in any drainage system or sanitary system in or about the Premises.

13. All moveable trash receptacles provided by the trash disposal firm for the Premises must be kept in the trash enclosure areas, if any, provided for that purpose.

14. No auction, public or private, will be permitted on the Premises or the Project without Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed.

15. No awnings shall be placed over the windows in the Premises except with the prior written consent of Landlord.

16. The Premises shall not be used for lodging, sleeping or cooking (except for microwave usage) or for any immoral or illegal purposes or for any purpose other than that specified in the Lease. No gaming devices shall be operated in the Premises.

17. Tenant shall ascertain from Landlord the maximum amount of electrical current which can safely be used in the Premises, taking into account the capacity of the electrical wiring in the Project and the Premises and the needs of other tenants, and shall not use more than such safe capacity. Landlord's consent to the installation of electric equipment shall not relieve Tenant from the obligation not to use more electricity than such safe capacity.

18. Tenant assumes full responsibility for protecting the Premises from theft, robbery and pilferage.

19. Tenant shall not install or operate on the Premises any machinery or mechanical devices of a nature not related to Tenant's use of the Premises as permitted under the Lease.

ADDENDUM 1
BASE RENT

Base Rent shall be computed as set forth below:

The Monthly Base Rent as of the Effective Date shall be computed by multiplying \$.61 psf by the number of rentable square feet in the Premises (\$457,500 based on 750,000 rentable square feet). The Monthly Base Rent shall increase by 2.5% on the first day of the 13th full calendar month after the Effective Date, and shall increase again by 2.5% on each 12-month anniversary thereafter during the next five (5) years, and 3% thereafter. It is understood and agreed that no Monthly Base Rent shall be payable (other than the prepaid Base Rent due on the Effective Date pursuant to Paragraph 4 of the Lease) until the Commencement Date. The Monthly Base Rent payable as of the Commencement Date shall be determined using the foregoing computations.

* The foregoing Monthly Base Rent amounts are based upon the Premises containing 750,000 rentable square feet of space, and are therefore subject to adjustment as set forth in Paragraph 1 of Addendum 3.

ADDENDUM 2
CONSTRUCTION

CONSTRUCTION OF PREMISES

1. Standard Specifications and Final Plans; Change Orders.

(a) **Preparation of Final Plans.** Landlord shall furnish or perform, at Landlord's sole cost and expense, those items of construction and those improvements ("**Landlord Improvements**") provided for in the Building Design Criteria, together with the addendum thereto (collectively the "**Specifications**") attached as **Exhibit "B"**. Landlord shall provide Tenant with final working drawings and specifications for the Landlord Improvements (the "**Final Plans**") which are consistent with the Specifications. Tenant shall respond promptly to any inquiries by Landlord during the development of the Final Plans and, to the extent requested by Landlord, shall cooperate with Landlord and Landlord's architect in developing the Final Plans. When Landlord requests Tenant to specify details or layouts, Tenant shall promptly specify same within ten (10) days thereafter so as not to delay completion of the Final Plans or the Landlord Improvements. Tenant shall pay to Landlord upon demand all increased costs incurred by Landlord in completing the Final Plans to the extent such costs are attributable to any such Tenant-caused delays.

(b) **Change Orders.** The Specifications define the entire scope of Landlord's obligation to construct or provide the Landlord Improvements. Tenant shall not be entitled to specify or designate any finishes, grades of materials, or other specifications or details of the construction of the Landlord Improvements which are not specifically provided for in or contemplated by the Specifications unless requested to do so by Landlord. Subject to this paragraph, however, Landlord shall make additions or changes to the Specifications requested by Tenant. If Tenant shall desire any such changes, Tenant shall so advise Landlord in writing (a "**Change Order Request**") as promptly as possible so as not to delay the orderly development of the Final Plans. All reasonable costs incurred by Landlord in having any Change Order Request reviewed and evaluated shall be reimbursed by Tenant upon demand. Such costs shall include, but not be limited to, the reasonable costs of architects, engineers, and consultants in reviewing and designing any such changes and the cost of contractors in providing cost estimates and constructability, functionality and product availability analyses. Tenant acknowledges and agrees that (i) Landlord shall not be obligated to accept any Change Order Request if in the reasonable judgment of Landlord the requested change would have an adverse effect on the quality, useful life, value, functionality or costs of operating or maintaining the Landlord Improvements; (ii) Tenant shall bear all costs and expenses associated with incorporating into the Final Plans and the Landlord Improvements any Change Order Request accepted by Landlord, including without limitation an administrative fee to Landlord equal to 10 percent of the increased cost resulting from such change (and Tenant shall pay such costs to Landlord, in advance as provided below); (iii) Landlord shall not be obligated to accept the least expensive method of incorporating the requested change if in the reasonable judgment of Landlord, such method does not incorporate sound construction practices; (iv) if the Change Order Request affects the roof, slab, structural components or systems or equipment to be installed within the Landlord Improvements or the future serviceability of the Landlord Improvements, and the Landlord determines that in order to lease the building to any subsequent tenant, additional work will have to be done to remove the effect of such change, the anticipated costs of restoring the Landlord Improvements to the condition it would have been in but for such change will also be paid in advance by the Tenant as a condition to Tenant's change, as provided below; and (v) to the extent Tenant specifies any items which have not been recommended by Landlord, Tenant assumes full responsibility for their performance. Upon agreement between Landlord and Tenant on the change that will be incorporated into the Final Plans and Landlord Improvements as a result of a Change Order Request, and the cost of such change, the Landlord and Tenant shall execute a change order (a "**Change Order**") setting forth the parties' agreement as to such terms. Payment of the Change Order cost shall be due from Tenant within 30 days of the mutual execution of the Change Order.

(c) Approval of Final Plans. Landlord shall submit the Final Plans to Tenant for its approval and Tenant shall advise Landlord, within 5 days thereafter, of its approval or disapproval of such Final Plans. Tenant's right to disapprove the proposed Final Plans ("Objection") shall be limited to material inconsistencies with the Specifications and any Change Orders then entered into, and noncompliance with or violation of applicable laws, codes, ordinances or other legal requirements. If Tenant shall not make an Objection to the proposed Final Plans or any element or aspect thereof within the 5 day period set forth above, then such Final Plans or the portions not objected to by Tenant shall be deemed approved. Resolution of any Objection by Tenant to the Final Plans shall be governed by Paragraph 3 below.

(d) Commencement of Construction Before Final Plans. Landlord may commence construction prior to finalization of the Final Plans and Tenant agrees that it shall cooperate with Landlord in reviewing and approving portions of the Final Plans for different stages or elements of the work so that construction can proceed on a "fast track" basis. The approval process for such portions of the Final Plans shall be substantially as set forth above, provided, however, that any Objection may not be inconsistent with the previously approved portions of the Final Plans.

(e) Change Orders During Construction. In the event that subsequent to the completion and approval of the Final Plans, Tenant desires to make a change in the work provided for therein, the parties shall proceed in accordance with the foregoing provisions relating to changes requested during the development of the Final Plans.

2. Landlord and Tenant Representatives. Landlord hereby designates Patrick Revere to serve as Landlord's representative and Tenant hereby designates Paul Galliher to serve as Tenant's representative during the design and construction of the Landlord Improvements. Either party may change its representative by notice to the other party. All communications between Landlord and Tenant relating to the design and construction of the Initial Improvements shall be forwarded to or made by such party's representative. In addition, no Change Order shall be binding on Landlord unless executed by Landlord's Representative and no Change Order shall be binding on Tenant unless executed by Tenant's Representative.

3. Dispute Resolution.

(a) Conference of Senior Representatives. The parties shall make good faith efforts to resolve any dispute which may arise under this Addendum in an expedient manner. In the event, however, that any dispute arises, either party may notify the other party of its intent to invoke the dispute resolution procedure herein set forth by delivering written notice to the other party. In such event, if the parties' respective representatives are unable to reach agreement on the subject dispute within 10 business days after delivery of such notice, then each party shall, within 5 business days thereafter, designate a senior executive officer of its management to meet at a mutually agreed location to resolve the dispute.

(b) Arbitration. Should any dispute arise between Landlord and Tenant with respect to any matters set forth in this Addendum 2 or otherwise relating to the construction of the Improvements, which is not resolved within the time period set forth in Paragraph 3(a) above, the parties shall submit such dispute to final and binding arbitration to be administered in accordance with the Streamlined Arbitration Rules and Procedures of JAMS (Judicial Arbitration and Mediation Service). Unless the parties mutually agree otherwise, the arbitration shall take place at a JAMS Resolution Center in Los Angeles County, California, the arbitration shall be conducted by one arbitrator (who must be disinterested and independent of the Members), and the arbitrator shall award attorneys' fees and the costs of arbitration (JAMS fees and the fees of the arbitrator) to the prevailing party. The decision of the arbitrator (the "**Determination**") shall be binding and conclusive on the parties, except to the extent that appeals are permitted under California Code of Civil Procedure §1286.2. After the Determination,

subject to any cure rights set forth in this Agreement, the prevailing party under the Determination may enforce its rights under this Agreement notwithstanding the filing or pendency of any appeal, but such party shall be responsible for any damages caused as a result of the taking of such action if the Determination is eventually set aside on appeal and either the court renders a decision on the merits in favor of the appealing party, or the appealing party is eventually the prevailing party in any subsequent arbitration proceeding. The arbitration award may be enforced in accordance with California Code of Civil Procedure §1285, et seq. or the Federal Arbitration Act (9 U.S.C. §1, et seq.). To the extent that matters of law are to be considered by the arbitrator, California law shall apply. Nothing herein shall prohibit a party from seeking a provisional remedy from a court of competent jurisdiction (e.g., a temporary restraining order or preliminary injunctive relief) pending the results of any such arbitration.

4. Tenant's Installations. Subject to applicable ordinances and building codes governing Tenant's right to occupy or perform in the Premises, and to the provisions of the Lease regarding Tenant-Made Alterations, which apply to the Tenant's initial installations before Substantial Completion as well as any after Substantial Completion, Tenant shall be allowed to install its improvements, machinery, equipment, fixtures, or other personal property on the Premises when, in Landlord's opinion, such installation will not interfere with Landlord's completion of construction or increase the cost thereof. Tenant does hereby agree to assume all risk of loss or damage to its machinery, equipment, fixtures, and other personal property, including any loss or damage resulting from the negligence of Landlord and to indemnify, defend, and hold Landlord harmless from any and all liability, loss, or damage arising from any injury to the property of Landlord, its contractors, subcontractors, or materialmen, and any death or personal injury to any person or persons arising out of such occupancy or installation. All of Tenant's installation work shall be coordinated with Landlord's general contractor. Prior to commencement of any such installation work by Tenant, Landlord shall be furnished with evidence that Tenant's contractors have obtained and maintain adequate insurance to protect the Landlord and its related parties from any liability resulting from such installation work. Landlord shall receive a certificate of insurance evidencing such insurance coverage, which shall indicate that Landlord is an additional insured. To the extent Tenant uses any of Landlord's contractors or subcontractors in connection with the installation of its improvements, Tenant acknowledges and agrees that Landlord's work shall take priority over that of the Tenant and that Tenant shall not divert Landlord's contractors or subcontractors from the performance of their work obligations for Landlord.

5. Substantial Completion.

(a) Determination of Substantial Completion. Landlord shall diligently proceed with the construction of the Landlord Improvements to achieve Substantial Completion, provided that such commencement of construction shall not be more than eighteen (18) months after the Effective Date. "Substantial Completion" shall be deemed to have occurred on the date upon which the architect who prepared the Final Plans ("Architect of Record") certifies that the Landlord Improvements have been completed in substantial accordance with the Final Plans subject only to completion of punch list items which do not materially interfere with the utilization of the Landlord Improvements for the purposes for which they were intended.

(b) Inspection and Punch List. As soon as Substantial Completion has been achieved, Landlord shall notify Tenant in writing of the date certified by the Architect of Record as the date of Substantial Completion. Within 15 business days following the date of Substantial Completion, Landlord and Tenant shall jointly inspect the Landlord Improvements and agree upon a punch list of items in accordance with the Final Plans needing completion or correction. Landlord shall use all reasonable diligent efforts to complete all punch list items within 45 days after agreement upon the punch list, subject, however, to long lead time items which must be ordered and to seasonal requirements for any landscaping and exterior work.

(c) Acceptance. Within 10 days after the Commencement Date, Tenant shall, upon demand, execute and deliver to Landlord a letter of acceptance of delivery of the Premises and confirmation of the Commencement Date. If Tenant occupies any portion of the Premises prior to Substantial Completion, the terms of this Lease shall apply to such occupancy or use of the Premises by Tenant. Except for incomplete punch list items referred to above, Tenant upon the Commencement Date shall have and hold the Premises as the same shall then be without any liability or obligation on the part of Landlord under this Lease for making any further alterations improvements of any kind in or about the Premises during the Lease Term, or any extension or renewal thereof.

(d) Tenant-Caused Delay. If Substantial Completion is delayed as a result of Tenant Change Orders, Tenant's interference with the construction of the Landlord Improvements and/or the Tenant Improvements, delays resulting from Tenant's using Landlord's contractors and/or subcontractors to complete Tenant's installations), or Tenant's failure to promptly respond to Landlord's request to specify details or layouts or other matters, or Tenant's improperly failing or refusing to fund its share of the cost of Tenant Improvements, as set forth in Paragraph 6 below, then the Commencement Date shall be deemed to have occurred when, in the opinion of the Architect of Record, Substantial Completion would have otherwise occurred and any additional costs incurred by Landlord in completing the Landlord Improvements and/or the Tenant Improvements which are a result of such Tenant-caused delays shall be reimbursed by Tenant upon demand by Landlord.

6. Tenant Improvements.

(a) In addition to the construction of the Landlord Improvements as described above, Landlord agrees to construct those tenant improvements (the "Tenant Improvements") which are requested by Tenant prior to the mutual approval of the Drawings (as defined below).

(b) Landlord shall pay for the Tenant Improvements by providing an allowance (the "Allowance") up to a maximum amount of \$3,880,000 (\$5.07 psf, exclusive of the area to be subleased to Highland Fairview (or one of its Affiliates)), and Tenant shall pay for the cost of the Tenant Improvements in excess of such amount. Provided, however, that the obligation of Landlord to pay for any Tenant Improvements in excess of \$2,880,000 are contingent upon there being any funds left after the construction of the Building has been completed in the "contingency" line item of the Development Budget, as defined in the Development Management Agreement between Landlord and HFC Holdings, LLC (not to exceed \$1,000,000) (such amount, the "Contingent Allowance"). If after the Drawings (as defined below) have been mutually agreed upon and Tenant has approved the bids for the Tenant Improvements, the cost of the Tenant Improvements is estimated to exceed \$2,880,000, prior to Landlord's commencement of construction of the Tenant Improvements, Tenant shall deposit the difference (between the total estimated cost of the Tenant Improvements and \$2,880,000) into an escrow account with First American Title Insurance Company or another mutually agreeable escrow company ("Escrow Holder"). The parties shall execute joint escrow instructions to the Escrow Holder which shall also be acceptable to Escrow Holder (including any "general escrow instructions" reasonably required by Escrow Holder), and which shall provide that the funds shall be distributed from escrow only upon joint written instructions from Landlord and Tenant. The cost of the escrow shall be paid one-half by Landlord and one-half by Tenant.

The first \$2,880,000 of the Allowance shall be applied against the actual cost of the Tenant Improvements, as such costs are incurred by Landlord. After such amount has been fully applied, Landlord shall give notice to Tenant, and any additional costs of the Tenant Improvements shall be paid from escrow. No more frequently than monthly, Landlord shall submit to Tenant a demand for a disbursement from escrow, together with copies of invoices or other documentation which shows the costs of the Tenant Improvements covered by such demand. Unless Tenant disputes that such costs are

due and payable, within ten (10) days after receipt of such demand from Landlord, Tenant shall give Escrow Holder written instructions to disburse the amount requested (which instructions shall be joined by Landlord). If Tenant disputes the amount due, it shall direct the disbursement of any amounts not in dispute, and shall specify the basis for any disputed amounts. If Landlord agrees with the dispute, Landlord will seek to resolve the dispute with the general contractor or any applicable subcontractors. If Landlord does not agree with the dispute, Landlord shall authorize Tenant to deal directly with the general contractor or any applicable subcontractors to seek to resolve the dispute. Any costs or expenses incurred by Landlord which result from a dispute which is not resolved in favor of the Tenant shall be paid or reimbursed by Tenant to Landlord on demand. If the Property is encumbered by any mechanics lien as a result of a dispute by Tenant which is not agreed to by Landlord, Tenant shall, at its expense, promptly pay-off or bond around such lien.

After final completion of the Landlord Improvements or the Tenant Improvements, the Tenant Improvements shall be reconciled with the total amount applied from the Allowance and the total amount disbursed to Landlord from escrow. If the total cost of the Tenant Improvements exceeded \$2,880,000, and if any portion of the Contingent Allowance is available, then such amount, not to exceed \$1,000,000, shall be promptly paid by Landlord to Tenant.

If after approval of the Drawings (as defined below), Tenant shall desire any changes to the Tenant Improvements it shall follow the procedure for Change Orders described in Paragraph 1(b) above. Any and all costs of reviewing any Change Order Request relative to the Tenant Improvements, and any and all costs of making any changes to the Tenant Improvements which Tenant may request and which Landlord shall approve shall be at Tenant's sole cost and expense, and shall be paid to Landlord upon demand and before commencement of the work covered by the Change Order.

Landlord shall proceed with and complete the construction of the Tenant Improvements in a good and workmanlike manner in accordance with all legal requirements and any Drawings prepared and approved by the parties as described below. The construction of the Tenant Improvements shall, to the extent possible, be coordinated with the construction of the Landlord Improvements. The Landlord Improvements shall not be deemed to have achieved Substantial Completion until the Tenant Improvements shall also have been Substantially Completed (also to be based upon the opinion of the Architect of Record).

The Landlord and Tenant shall work together to prepare designs and construction drawings (collectively, the "Drawings") for the Tenant Improvements and any such Drawings must be mutually approved by Landlord and Tenant before work is commenced. The cost of such designs and drawings shall be part of the allowance described above. After the Drawings are mutually approved, the Tenant Improvements will be put out to bid, and the amount of the bids will be presented to Tenant for approval. Landlord will competitively bid all Tenant Improvements and will disclose such bids to Tenant on an "open book" basis. The Tenant Improvements will not be constructed until Tenant has approved the bids.

ADDENDUM 3
MISCELLANEOUS PROVISIONS

1. **Measurement of Premises.** After completion of construction of the Building and Improvements, and prior to the Commencement Date, Landlord shall cause its architect to measure the rentable space in the Building and deliver to Tenant a written certificate certifying the correct dimension of the Building. The measurement shall be made in accordance with current BOMA standards for measurement of industrial buildings. Upon the determination of the actual floor area of the Building, the Base Rent payable by Tenant hereunder shall be adjusted to reflect the floor area of the Building.

2. **Tax Proration.** Landlord shall, at its expense, use its best efforts to have the Premises separately assessed from any contiguous land which it owns. If the Premises are assessed as part of a larger tax parcel (a "Tax Parcel"), Tenant shall pay to Landlord a proportionate amount of all Taxes attributable to such Tax Parcel and the Building and Improvements thereon in the manner hereinafter provided. When Tenant is required to pay a proportionate share of Taxes to Landlord, the same shall be paid to Landlord within twenty (20) days following receipt of Landlord's written notification that such taxes and assessments are due. Landlord's written notification shall be forwarded to Tenant not later than thirty (30) days prior to the date such taxes and assessments shall be due and shall be accompanied by a copy of the tax bill or certificate and such additional information as Tenant may reasonably require to show how Tenant's proportionate share of such taxes and assessments was calculated. Tenant's proportionate share of such taxes and assessments shall be determined by Landlord on an equitable basis, considering the respective land areas of the separate parcels which make up the Tax Parcel and the respective leasable areas of any buildings constructed thereon.

3. **Net Lease.** It is the intention of the parties hereto that the obligations of Tenant hereunder shall be separate and independent covenants and agreements, and that Base Rent, reimbursement of Operating Expenses and all other sums payable by Tenant hereunder shall continue to be payable in all events, and that the obligations of Tenant hereunder shall continue unaffected, unless the requirement to pay or perform the same shall have been terminated pursuant to an express provision of this Lease. This is a net lease and Base Rent, reimbursement of Operating Expenses and all other sums payable hereunder by Tenant shall be paid without notice or demand, and without setoff, counterclaim, recoupment, abatement, suspension, deferment, diminution, deduction, reduction or defense, except as otherwise specifically set forth herein. This Lease shall not terminate and shall not have any right to terminate this Lease, during the Lease Term, except as otherwise expressly provided herein. Tenant agrees that, except as otherwise expressly provided herein, it shall not take any action to terminate, rescind or avoid this Lease for any reason, including (i) the bankruptcy, insolvency, reorganization, composition, readjustment, liquidation, dissolution, winding-up or other proceeding affecting Landlord (ii) under any mortgage or deed of trust which may now or hereafter encumber the Premises (iii) any action with respect to this Lease (including the rejection hereof) which may be taken by Landlord under the Federal Bankruptcy Code or by any trustee, receiver or liquidator of Landlord or by any court under the Federal Bankruptcy Code or otherwise, (iv) the Taking of the Premises or any portion thereof, (v) the prohibition of restriction of Tenant's use of the Premises or any portion thereof, (vii) the eviction of Tenant from possession of the Premises, by paramount title or otherwise, or (viii) default by Landlord hereunder on any other agreement between Landlord and Tenant. Tenant waives all rights which are not expressly stated herein but which may now or hereafter otherwise be conferred by law to quit, terminate or surrender this Lease or the Premises; to any setoff, counterclaim, recoupment, abatement, suspension, deferment, diminution, deduction, reduction or defense of or to Base Rent, reimbursement of Operating Expenses or any other sums payable under this Lease, and for any statutory lien or offset right against Landlord or its property, each except as otherwise expressly provided herein.

4. **Statements.** Tenant shall submit to Landlord (a) one hundred twenty (120) days of the end of each fiscal year of Tenant annual balance sheets, income and cash flow statements for Tenant, certified by an independent public accountant and (ii) within 90 days of the end of each fiscal year, gross sales figures at the Premises during such fiscal year, certified by the senior financial officer of Tenant. Quarterly 10Qs as filed with the Securities and Exchange Commission shall satisfy the requirements contained in subparagraph (i) herein. Copies of the 10Ks filed with the Securities and Exchange Commission will satisfy the requirement contained in subparagraph (ii). The obligations of Tenant shall continue whether or not this Lease shall have been assigned (unless Tenant has been released from liability hereunder). To the extent that any information provided by Tenant to Landlord pursuant to this Paragraph is not otherwise available to the general public, Landlord shall keep such information confidential and shall only disclose such information to Landlord or Landlord's Lender if any, and their respective agents, partners, members, employees, attorneys, accountants, brokers and potential purchasers and investors, unless otherwise required by a court order.

EXHIBIT "A"
SITE PLAN

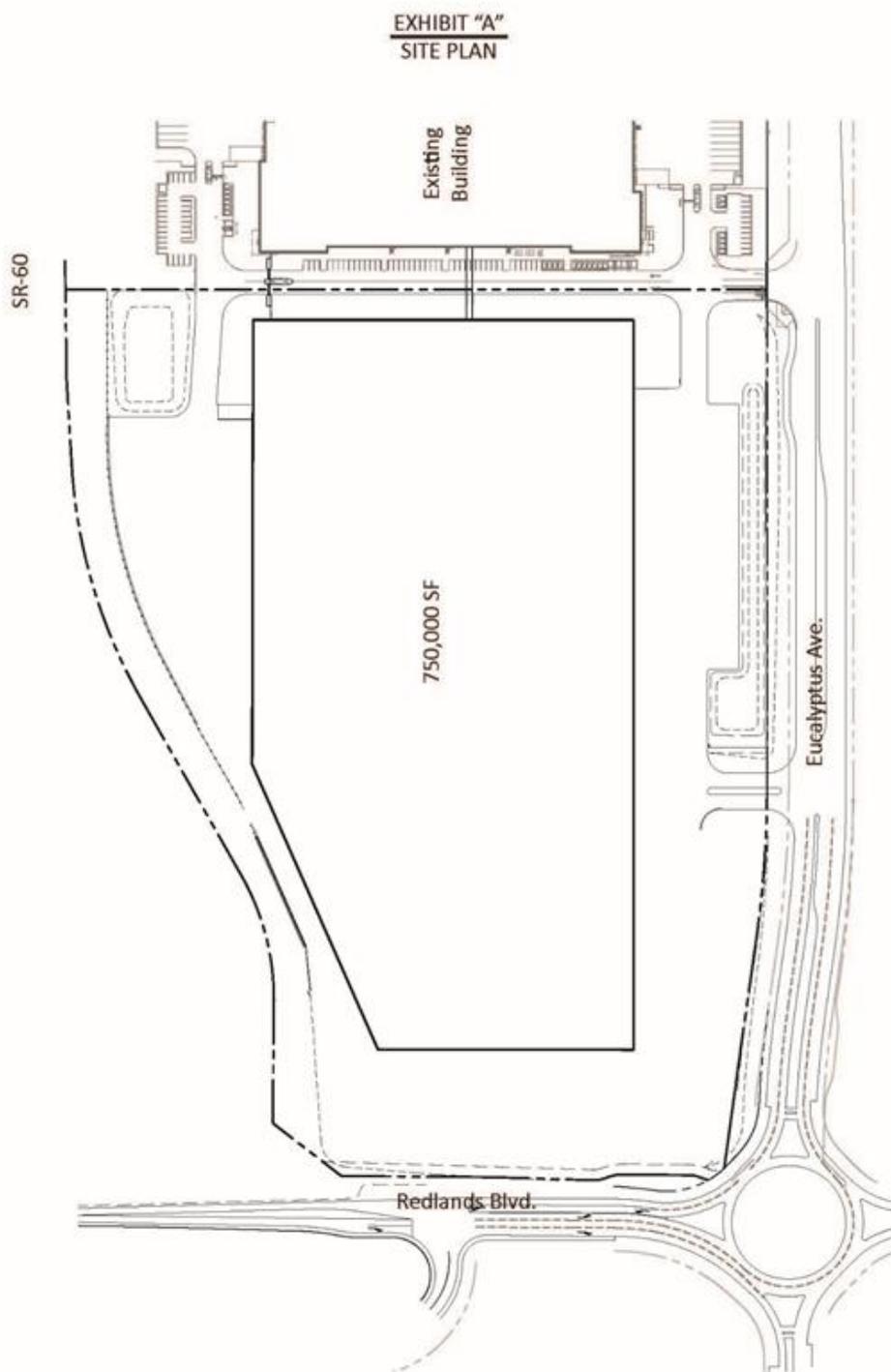


Exhibit "A"-1

EXHIBIT "B"

SKECHERS Building Design Criteria
750,000 SF Distribution Facility
Rancho Belago, CA

Prepared for:

Skechers U.S.A
228 Manhattan Beach Blvd.
Manhattan Beach, CA 90266
P: 909.390.1619

Prepared by:

 Highland Fairview
14225 Corporate Way
Moreno Valley, Ca 92553
P: 714.824.8037

E: prevere@highlandfairview.com

Revised: 11/29/2018

1. GENERAL BUILDING DESIGN:

- a. **Total Building Area:** 750,000 SF
- b. **Building Dimensions** (Approx. excluding pop-out): 650' x 1,150'
- c. **Site Size:** 1,540,000 SF (35.3 AC)
- d. **Dock Height:** 48"
- e. **Clear Height:** 45' behind the first column line
- f. **Doors:**
 - i. Drive-in Doors: 4
 - ii. Dock Doors: 70
- g. **Parking Requirements:**
 - i. Auto Parking Provided: 295 Stalls
 - ii. Additional Trailer Parking Provided: 70 Spaces (12'x53')
- h. **Max ridge height:** 50'
- i. **Bay Spacing:**
 - i. 60' speed bay, 50' typical bay spacing perpendicular to dock doors
 - ii. 58'-10" bay typical parallel to dock doors, odd bay at end per plan

2. CONSTRUCTION TYPE:

- a. IIIB per 2016 CBC
- b. ESFR using FM Approved K-25 heads w/ electric or diesel fire pump (Fire protection contractor to determine if pump is required)
- c. Concrete tilt-up wall construction, steel truss hybrid roof structure with wood deck and TPO roofing

3. OCCUPANCY CLASSIFICATION:

- a. B (Office)
- b. S-1 (Storage)
 - i. Designed for future High Pile Storage commodities I-IV and carton non-expanded plastics (separate permit required)

4. APPLICABLE CODES:

- a. 2016 California Building Code
- b. 2016 California Electrical Code
- c. 2016 California Mechanical Code
- d. 2016 California Plumbing Code
- e. 2016 California Energy Code
- f. 2016 California Fire Code
- g. 2016 California Green Building Standards Code
- h. 2016 NFPA Fire Alarm

- i. 2016 NFPA Fire Sprinkler
- j. American with Disabilities Act

5. SITE WORK:

- a. **Soils Report:** Provided by Leighton Associates, to be considered part of the construction documents, all paving sections below are minimum requirements, general contractor to review soils report for specific site requirements and requirements above these minimum specifications.
- b. Pad to be dock high, import/export as necessary per grading plan
- c. Concrete paving on site per soils report
- d. Concrete paving at truck yard and truck drives to be unreinforced Minimum 6" thick concrete paving, with minimum 3,000 psi compressive strength at 28 days, control/construction joints at 15' o.c. max, with equal sides
- e. Concrete paving at auto stall and auto drives to be unreinforced Minimum 5" thick concrete paving, with minimum 3,000 psi compressive strength at 28 days, control/construction joints at 15' o.c. max, with equal sides
- f. The control and construction joint spacing to be a maximum of 15'-0" o.c. Provide 3/4" diameter x 16" long smooth dowels spaced at 12" o.c. at all construction joints
- g. Concrete sidewalks to be minimum 4" thick
- h. 6" high concrete curbs to be provided at auto parking and drive areas
- i. 12" high concrete curbs to be provided at truck yard
- j. Provide screen walls, fencing, gates and trash enclosures per architectural plan

6. ROOF FRAMING SYSTEM:

- a. **Roof Slope:** 1/8" per 1' minimum
- b. **Hybrid Steel Truss Panelized Wood Roof Joist Load Design:**
 - i. Steel Joist Dead Load = 12 PSF
 - ii. Steel Girder Dead Load = 14 PSF
 - iii. Steel Joist/Girder Live load (reducible)= 20 PSF
- c. All structural steel trusses to be prime painted "dark grey" by the truss manufacturer. All steel ledgers to be "gray" prime painted to match the steel trusses. General contractor to touch up all exposed structural steel in field.
- d. Roof will accommodate a 4 psf solar load over the entire building
- e. A 400 lbs point load at the bottom chord of the truss will be included to accommodate sprinkler loads. (Fire Sprinklers will be design build as noted in section 22 of this specification)
- f. All structural steel roof support columns to be tube steel columns as per Structural Drawings.

g. Roof Sheathing:

- i. Provide for 1/2" min. thick roof sheathing, unless otherwise specified by the Structural Engineer.
- ii. Provide for roof sheathing Moisture Inspection interior/exterior by an inspector approved by the roofing inspector, prior to any roofing membrane installation, as required by owner's roofing consultant.
- h. All seismic straps/steel tubes to be designed below the roof sheathing.
- i. All roof diaphragm nails are to be galvanized screw shank (with glue coat).
- j. All sub-purlin hangers to be galvanized with a medium level corrosion protection.

7. SMOKE HATCH/ SKYLIGHTS:

- a. Provide 1.33% total of building area, with 48"x96" wood curb mounted smoke hatch/skylights with 360° fusible link to be verified by Design-Build Fire Sprinkler Contractor and Fire Department Requirements. Provide UL 793 listed smoke-hatches
- b. Provide 1.67% total of building area, with 48"x96" wood curb mounted skylights

8. ROOF ACCESS:

- a. Provide (1) roof access ladder(s) to meet OSHA Requirements with locking device, location per plan.

9. ROOFING:

- a. Mechanically fastened 60 mil TPO single ply membrane over 1/2" thick dens-decking 20 year "NDL" warranty is included, unless otherwise specified by the Structural Engineer.
- b. Provide built-up crickets at skylights to provide drainage around skylights, or any other mechanical equipment mounted on roof.
- c. Provide cap sheet at Conditioned spaces if required per CalGreen and Local jurisdiction.

10. INSULATION:

- a. **Roof Insulation:** Provide white – faced scrim foil at underside of roof-deck, typ.

11. FOUNDATION:

- a. All foundations to be minimum 3,000 psi concrete, unless specified by the structural engineer

12. BUILDING FLOOR SLAB:

- a. Dock height per section 1 – General Building Design
- b. Slab to be 7" thick 4,500 PSI at 28 days concrete design mix to allow for 1 1/2" maximum aggregate size with concrete slump to be 4" plus or minus 1". Un-reinforced slab.
- c. Provide 3/4" diameter x 16" long smooth greased dowels spaced at 12" o.c. at all construction joints or alternatively provide 1/4" x 4 1/2" x 4 1/2" @ 18" o.c. diamond shaped plate dowels unless noted otherwise on structural drawings. Provide 3/4" diameter x 16" long smooth dowels at 24" o.c. placed in dowel baskets at all control joints unless noted otherwise on structural drawings.

Note: Tenant shall provide Landlord 90 days before the issuance of building permits any modifications required to the floor slab, including footings below the slab, required for the Tenants Material Handling Equipment (MHE). Landlord will deliver the floor in accordance with this spec and the requested modification from the tenant and the tenants rack designer / installer. Costs associated with modification to the slab will be credited against tenants TI allowance in accordance with Addendum 2 of the lease.

- d. All floor slabs to be placed on compacted native soil, unless stated otherwise in the Soils Report.
- e. **Finish:** Provide "burnished" floor finish throughout entire warehouse floor slab.
- f. **Floor Flatness:** Ff = 50 (local minimums FF34)
- g. **Floor Levelness:** Fl = 35 (local minimums FL24)
- h. **Control Joints:** Saw cut control joints must be 1-1/4" minimum depth as soon as the slab will support the weight of the saw and operator without disturbing the final finish.
- i. **Floor Joint Spacing:** To be 18'-0" maximum center to center at Office and Warehouse floor slabs.
- j. Floor slab to be wet cured with an approved protective wet covering for a minimum period of 7 days.
- k. Sub-grade compaction under floor slab to be 95% minimum for the upper most 12", unless stated otherwise in the Soils Report. (in order to achieve a bearing pressure of 2,000 PSF minimum)
- l. All equipment used on the floor slab during the construction phase of work shall be properly protected (diapered and non-marking tires) to prohibit oils from leaking on the floor slab.
- m. Provide 10'-0" wide perimeter floor pour strips at all truck dock walls and 3'-1 1/2" wide at all other walls, unless noted otherwise on structural drawings. No underground piping, conduits, etc. allowed in pour-strip at dock doors to allow for current and future recessed dock levelers.

- n. All floor slab nail or brace frame holes to be filled with approved 2-part epoxy compound to match concrete color. Pega Bond LV 2000, Burke Epoxy Injection Resin or equal.
- o. All floor slab panel form nail holes to be predrilled and wood doweled prior to nailing. Brace holes to be predrilled.
- p. Provide diamond control joints at all columns unless noted otherwise on structural drawings
- q. Chamfer and reveal strips attached to floor slab must be properly patched prior to sealing floor slab.
- r. Provide alternate to fill all construction joints and control joints with semi-rigid epoxy joint filler MM-80, or an approved equal (in writing by the Architect).
- s. Floor includes a floor sealer
- t. Slab will be designed accommodate the wire guided system
- u. Seismic zone: Site Class Definition "D"
- v. Floor Slope will be 0%

13. CONCRETE WALL PANELS:

- a. **Concrete Panels:** Panel thickness, reinforcing, and concrete psi as per structural drawings.
- b. All wall panels are to be tied with rebar into floor slab as determined by the Structural Engineer.
- c. All concrete tilt-up wall panels must be lifted from building exterior.
- d. Properly sack all wall lift point pockets once walls have been erected.

14. GLAZING:

- a. All exterior glazing to be low e dual glazed Medium Performance Glass set in rear glazed aluminum system. Systems to be wet sealed and designed for CBC code minimum wind loads.
- b. Storefront framing to be design build by general contractor

15. OVERHEAD DOORS:

- a. **Dock Doors:**
 - i. 9'x10' sectional overhead with vision glazing, 2" 24 GA
 - ii. Door track protection at all doors
 - iii. Provide 3" x3" x 1/4" steel angle at dock sill, and galvanized steel 3/16" bent metal plate jamb guards 5' high A.F.F.
 - iv. Designed for CBC 2016 code minimum wind load exposure
 - v. Manual operation
 - vi. Prefinished by manufacturer – white

vii. Provide bollards at each dock door

b. Drive Thru Doors:

- i. 12'x14' sectional overhead with vision glazing, 2" 24 GA
- ii. Provide bollards per plan (4 per door)
- iii. Provide 3" x3" x 1/4" steel angle at dock sill, and galvanized steel 3/16" bent metal plate jamb guards 5' high A.F.F.
- iv. Designed for CBC 2016 code minimum wind load exposure
- v. Prefinished by manufacturer – white

16. EXTERIOR MAN DOORS:

- a. **Hollow metal doors:** 1 3/4" hollow metal doors. Self-closing. Provide heavy duty spring chain for 90° opening. Provide panic hardware, paint to match building with semi-gloss enamel. Provide steel kick plate.
- b. **Entry doors:** to be aluminum frame tempered glass with chrome push/pull bars (self-closing) designed for CBC 2016 code minimum wind loads. (Less active door to be anchored to floor and head.) Provide panic hardware.
- c. **Emergency Exit Doors:** will meet FTZ requirements (no exterior handles)

17. DOCK EQUIPMENT:

- a. Provide two dock bumpers at all dock doors, minimum 4 1/2" projection
- b. Provide underground conduit to all dock doors for future and current equipment

18. PAINTING:

- a. **Exterior:** (2) coats acrylic flat, roll on primer; spray on finish coat. Prime all curbs to receive paint.
- b. **Interior Warehouse:**
- c. Walls: White (2) coat flat to cover.
- d. **Roof Structure Underside:** Touch up dark gray primer at steel, typ.
- e. **Interior Structural Columns:** Factory prime to match roof truss color, lower 10' to be painted safety yellow. Touch up dark gray primer above 10' typ.
- f. **Paint Touch-Up:** Provide paint touch-up at all field welded connections.
- g. **Door numbers:** Paint door numbers on exterior above each dock door 12" high and on interior side of door 12" high. Exact location to be reviewed by Landlord & architect.
- h. **Bollards:** all bollards to be painted OSHA safety yellow, except bollards at fire equipment to be red
- i. Fire Lane will be painted in shipping yards
- j. Parking Stalls, curbs to be painted to city requirements and approved plans
- k. All interior paint to meet CalGreen and LEED standards for VOC content

19. MECHANICAL:

- a. **Warehouse:** Provide roof mounted exhaust fans to provide a minimum 1 air change per hour. Make up air to be provided with wall louvered vents with changeable filters, and burglar bars (Amount to be determined by mechanical design-build contractor and coordinated with the Architect and structural engineer).
- b. **Electrical room:** Provide exhaust fan, makeup air to come from warehouse through louvers in door.
- c. **Mechanical Engineering:** to be design build

20. PLUMBING:

- a. 1,500 LF of sewer under the slab is provided. The tenant will provide Landlord with the location for the installation of the sewer piping no later than 90 days prior to the issuance of building permits. Any additional piping would be at tenant's expense.
- b. 300 LF of water line overhead provided. The tenant will provide Landlord with the location for the installation of the water lines no later than 90 days prior to the issuance of building permits. Any additional piping would be at tenant's expense.
- c. Provide **exterior** roof drains with overflow scuppers typical at exterior dock walls. Exterior downspouts to be 12" x 12" typ. painted. Provide cast iron interior roof drains with interior overflow drains at office areas and walls facing public streets. (Refer to Roof Plans for locations and sizes.)
- d. Provide required monitoring manhole(s) if required by the City requirements.
- e. Provide domestic water service(s) to the building.
- f. Provide required landscape irrigation water meter(s) as required.
- g. Provide hose bibs at main entries, trash enclosures, trash compactors, and at roof
- h. Plumbing engineering to be design build

21. ELECTRICAL:

- a. The electrical service is to be as follows:
 - i. Two (2) 4,000-amp UGPS / one (1) 1,200-amp UGPS / two (2) 4,000- amp metering section & distribution boards / one (1) 1,200 amp switchgear / 200-amp house panel
 - ii. Additional 4,000 AMP services will be and paid for by Tenant as outlined in section 26.
 - iii. Run empty conduit for future power to every dock door (not within the wall). Panels not included.
- b. Exterior parking lot lighting to be LED wall mounted and steel pole mounted fixtures (photo cell on and photo cell off). Lighting to be two foot-candles minimum in all parking lot areas. **Lighting at all man doors to be per code.**

- c. Provide exterior soffit lights at exterior building entry soffits.
- d. Provide electrical hook up(s) for landscape irrigation controller.
- e. Emergency lighting and required exit lighting to meet CBC, N.F.P.A. and CFC editions currently enforced by the governing agencies.
- f. Stub in phone service and provide required telephone backboard(s). Provide (2) 4" conduits.
- g. Provide for electric/telephone room accessible by Power Company from exterior of building. Room size to be determined by Electrical Design-Build Contractor.
- h. Electrical conduit to all fire PIV's and detector checks for fire monitoring.
- i. Electrical gear by 'Square D', or approved equal by the Owner, in writing.
- j. Any conduit to be installed by tenant after the slab has been installed is subject to the alterations and improvements provisions in the lease.
- k. Electrical engineering to be design build

22. FIRE SPRINKLER SYSTEM:

- a. All fire systems must be 100% complete with all required fire hydrants, piv's, bells, fire loops approved by Fire Department, and the most current Edition of the CFC.
- b. Full Sprinkler System to be ESFR using FM approved K-25 heads and pump if required
- c. Max ridge not to exceed 50'.
- d. Provide fire extinguisher(s) per Fire Department Requirements and MHE Design.
- e. All ceiling hung sprinkler pipe will be recessed within the trusses.
- f. Fire protection is design-build.
- g. All gaps in slab at fire risers to be filled with clean gravel, typ.

23. FIRE ALARM:

- a. Designed to comply with all codes by design build contractor.
- b. Design to be design build by general contractor
- c. Permitting and plans submittal to be by design-build contractor

24. PIPE BOLLARD PROTECTION

- a. Provide 6" diameter schedule 80 pipe bollards 2500 psi concrete filled at the minimum following locations. All bollards within truck court to be 10" diameter filled with concrete:
 - i. At fire riser locations, exposed PIV's
 - ii. Fire hydrants
 - iii. Power transformers per utility comparing requirements
 - iv. At exterior stairs
 - v. At gates (4 per gate minimum)

- vi. At each light pole in the shipping yard
- vii. At dock and ramp doors
- viii. Elsewhere as noted on plan

25. LANDSCAPE AND IRRIGATION:

- a. Landscape and Irrigation to meet the governing jurisdiction standards.
- b. All irrigation systems to be automatic and meet City requirements.
- c. Provide separate water meter(s) for landscape irrigation.
- d. Provide drip irrigation where glazing is adjacent to the grade.
- e. Irrigation heads to be (1) foot behind curbs at parking stalls.
- f. Landscape Architect to determine if recycled water is available for the project.

26. TENANT IMPROVEMENTS:

The Tenant has requested that Landlord deliver the following items ("Tenant Improvements"), which were not included in the "Landlord Improvements" listed in the building design criteria set forth in Paragraphs 1-25 above.

- Three (3) additional 4,000 AMP Services
- Stairs to Roof Access
- Float and Grind VNA for a F-min of 70/80 (Long/ Trans)
- Electrical distribution on each column
- Guardhouse with Restrooms (2)
- Driver Check-In Entrance (8x10 area with a restroom, power for vending machines, notification bell)
- Dock Door Equipment (mechanical levelers, dock seals, dock light, dock lock, dock fan and convenience electrical outlet) (includes conduit within wall)
- Facility Area - Battery Charging Areas (3) (12 and 20 amp disconnects, safety eyewash, quad receptacles, each charging area will have panel scheduling of 1400 AMPS)
- Electrical Connections for Compactors (750 AMP power and disconnects for 5 compactors)
- Electric Drop and Data Runs for Supervisor Work Stations
- Facility Areas / Office Area (7,500 SF Total)
- Open Offices (2,500 SF)
- Breakroom (600 SF)
- Supply Closet & Storage Closet (160 SF)
- Other Office Area with Restrooms (approx. 4,240 SF)
- Lighting System (LED lighting)
- Signage
- Outside Smoking Area (400 SF)
- Conveyor Bridge & Conveyor Openings + Reinforcement of Bldg A wall
- Roof reinforcement for ceiling hanging of conveyor
- Equipment canopies (if any) & supporting wall openings

- 4” empty conduit for fiber run from current data center to MDF in new building—no 90° bends
- UPS & back-up generators
- Mezzanine footings

Landlord has budgeted \$1,260,000 (which includes a contingency of \$210,000) in the Development Budget (a copy of which is attached as an exhibit to the Development Management Agreement, a copy of which is an exhibit to the Amended and Restated Limited Liability Company Agreement of Landlord), for roof-mounted solar panels which will generate 350 kW. Landlord will have a discussion with Tenant before the roof-mounted solar panels are installed, and if Tenant requests, some or all of the solar panels will be installed on carports, provided that the solar panels generate 350 kW in the aggregate. Any costs in excess of those in the Development Budget for the construction of carport-mounted solar panels (including the cost of the construction of the carports and any additional solar panels required to generate 350 kW) shall be paid for in accordance with Paragraph 6(b) of Addendum 2 to the Lease (as described below).

Landlord will install the Tenant Improvements as indicated above, which shall be paid for in accordance with Paragraph 6(b) of Addendum 2 to the Lease, which provides as follows:

“Landlord shall pay for the Tenant Improvements by providing an allowance (the “Allowance”) up to a maximum amount of \$3,880,000 (\$5.07 psf, exclusive of the area to be subleased to Highland Fairview (or one of its Affiliates)), and Tenant shall pay for the cost of the Tenant Improvements in excess of such amount. Provided, however, that the obligation of Landlord to pay for any Tenant Improvements in excess of \$2,880,000 are contingent upon there being any funds left after the construction of the Building has been completed in the “contingency” line item of the Development Budget, as defined in the Development Management Agreement between Landlord and HFC Holdings, LLC (not to exceed \$1,000,000) (such amount, the “Contingent Allowance”). If after the Drawings (as defined below) have been mutually agreed upon and Tenant has approved the bids for the Tenant Improvements, the cost of the Tenant Improvements is estimated to exceed \$2,880,000, prior to Landlord’s commencement of construction of the Tenant Improvements, Tenant shall deposit the difference (between the total estimated cost of the Tenant Improvements and \$2,880,000) into an escrow account with First American Title Insurance Company or another mutually agreeable escrow company (“Escrow Holder”). The parties shall execute joint escrow instructions to the Escrow Holder which shall also be acceptable to Escrow Holder (including any “general escrow instructions” reasonably required by Escrow Holder), and which shall provide that the funds shall be distributed from escrow only upon joint written instructions from Landlord and Tenant. The cost of the escrow shall be paid one-half by Landlord and one-half by Tenant.

The first \$2,880,000 of the Allowance shall be applied against the actual cost of the Tenant Improvements, as such costs are incurred by Landlord. After such amount has been fully applied, Landlord shall give notice to Tenant, and any additional costs of the Tenant Improvements shall be paid from escrow. No more frequently than monthly, Landlord shall submit to Tenant a demand for a disbursement from escrow, together with copies of invoices or other documentation which shows the costs of the Tenant Improvements covered by such demand. Unless Tenant disputes that such costs are due and payable, within ten (10) days after receipt of such demand from Landlord, Tenant shall give Escrow Holder written instructions to disburse the amount requested (which instructions shall be joined by Landlord). If Tenant disputes the amount due, it shall direct the disbursement of any amounts not in dispute, and shall specify the basis for any disputed amounts. If Landlord agrees with the dispute, Landlord will seek to resolve the dispute with the general contractor or any applicable subcontractors. If Landlord does not agree with the dispute, Landlord shall authorize Tenant to deal directly with the

general contractor or any applicable subcontractors to seek to resolve the dispute. Any costs or expenses incurred by Landlord which result from a dispute which is not resolved in favor of the Tenant shall be paid or reimbursed by Tenant to Landlord on demand. If the Property is encumbered by any mechanics lien as a result of a dispute by Tenant which is not agreed to by Landlord, Tenant shall, at its expense, promptly pay-off or bond around such lien.

After final completion of the Landlord Improvements or the Tenant Improvements, the Tenant Improvements shall be reconciled with the total amount applied from the Allowance and the total amount disbursed to Landlord from escrow. If the total cost of the Tenant Improvements exceeded \$2,880,000, and if any portion of the Contingent Allowance is available, then such amount, not to exceed \$1,000,000, shall be promptly paid by Landlord to Tenant.

If after approval of the Drawings (as defined below), Tenant shall desire any changes to the Tenant Improvements it shall follow the procedure for Change Orders described in Paragraph 1(b) above. Any and all costs of reviewing any Change Order Request relative to the Tenant Improvements, and any and all costs of making any changes to the Tenant Improvements which Tenant may request and which Landlord shall approve shall be at Tenant's sole cost and expense, and shall be paid to Landlord upon demand and before commencement of the work covered by the Change Order.

Landlord shall proceed with and complete the construction of the Tenant Improvements in a good and workmanlike manner in accordance with all legal requirements and any Drawings prepared and approved by the parties as described below. The construction of the Tenant Improvements shall, to the extent possible, be coordinated with the construction of the Landlord Improvements. The Landlord Improvements shall not be deemed to have achieved Substantial Completion until the Tenant Improvements shall also have been Substantially Completed (also to be based upon the opinion of the Architect of Record).

The Landlord and Tenant shall work together to prepare designs and construction drawings (collectively, the "Drawings") for the Tenant Improvements and any such Drawings must be mutually approved by Landlord and Tenant before work is commenced. The cost of such designs and drawings shall be part of the allowance described above. After the Drawings are mutually approved, the Tenant Improvements will be put out to bid, and the amount of the bids will be presented to Tenant for approval. Landlord will competitively bid all Tenant Improvements and will disclose such bids to Tenant on an "open book" basis. The Tenant Improvements will not be constructed until Tenant has approved the bids."

EXHIBIT "C"
FORM OF HIGHLAND FAIRVIEW SUBLEASE

THIS SUBLEASE AGREEMENT (the "**Sublease**") is made as of _____, 2019 ("**Effective Date**") by and between SKECHERS, U.S.A., INC., a Delaware corporation ("**Sublandlord**"), and HIGHLAND FAIRVIEW PROPERTIES, a Delaware general partnership ("**Subtenant**").

RECITALS

WHEREAS, HF Logistics-SKX T2, LLC, a Delaware limited liability company, as landlord ("**Landlord**"), and Sublandlord, as tenant, entered into that certain Lease of even date herewith (as the same may be amended from time to time, the "**Master Lease**") for the premises (the "**Premises**"), which will consist of approximately 750,000 net rentable square feet in a building (the "**Building**") to be constructed on approximately 35.30 acres of land in Moreno Valley, California, as more particularly described in the Master Lease, which Premises is part of a project known as Highland Fairview Corporate Park (the "**Project**").

WHEREAS, Sublandlord desires to sublease a portion of the Premises to Subtenant, consisting of approximately 30,000 net rentable square feet in the approximate location shown on Exhibit "B" attached hereto (the "**Subleased Premises**");

WHEREAS, Landlord has previously approved the subletting of the Subleased Premises by Sublandlord to Subtenant; and

WHEREAS, Sublandlord and Subtenant desire to set forth herein the terms and conditions applicable to the subleasing of the Subleased Premises.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Sublandlord and Subtenant agree as follows:

AGREEMENT

1. Term.

(a) Initial Term. Sublandlord does hereby lease and demise to Subtenant, and Subtenant does hereby lease and accept from Sublandlord, the Subleased Premises for a term (the "**Sublease Term**") commencing on the "Commencement Date" of the Master Lease (the "**Sublease Commencement Date**") and terminating at the end of the 60th full month thereafter (the "**Sublease Termination Date**"), subject to extension or earlier termination pursuant to the terms of the Master Lease or this Sublease.

(b) Option to Extend. Subtenant may extend the Sublease Term for one (1) period of sixty (60) months, on the same terms and conditions (including the Base Rent calculation), provided that Subtenant gives notice of its exercise of its option to extend to Sublandlord not later than three (3) months prior to the Sublease Termination Date.

2. Rent.

(a) Base Rent. Commencing on the Sublease Commencement Date, Subtenant shall pay to Sublandlord base rent (the "**Base Rent**") for the Subleased Premises in the same amount on a per square foot basis as is payable by Sublandlord to Landlord under the Master Lease. Base Rent shall be payable in advance, without demand and without abatement, reduction, set-off or deduction, on the first day of each calendar month during the Sublease Term with appropriate prorations for partial months.

All rent shall be paid by Subtenant to Sublandlord at the address set forth in Paragraph 16 below, or any other address designated by Sublandlord in a notice to Tenant:

(b) Additional Rent.

(i) Subtenant shall pay to Sublandlord, as Additional Rent, an amount equal to Subtenant's "pro rata share" of Operating Expenses, Taxes and Insurance (as such terms are defined in the Master Lease), which are sometimes herein collectively referred to as "Other Charges," for each Lease Year during the Sublease Term. Subtenant's "pro rata share" share shall be a fraction, the numerator of which is the number of rentable square feet in the Subleased Premises and the denominator of which is the number of rentable square feet in the Building (which is agreed initially to be 750,000 square feet, subject to adjustment as set forth in the Master Lease, and accordingly, it is agreed that Subtenant's pro rata share is initially (4%).

(ii) Within a reasonable time following receipt from Landlord of invoices or other notices with respect to the Other Charges, Sublandlord shall invoice Subtenant for the Additional Rent due from Subtenant as described in clause (i) above, which invoices shall be based upon Landlord's calculation (or estimate, if Landlord is permitted to estimate such charges under the Master Lease) of the Other Charges, and Subtenant shall pay the Additional Rent to Sublandlord within ten (10) business days after Subtenant's receipt of such invoice. If and when any of the Other Charges which have been estimated are reconciled under the Master Lease, they shall likewise be reconciled under this Sublease.

(iii) Any costs or expenses for services or utilities in excess of those required by the Master Lease to be supplied to a Sublandlord by Landlord, which are not otherwise included in Operating Expenses, and which are attributable directly to Subtenant's use or occupancy of the Subleased Premises, shall be paid by Subtenant as Additional Rent on the next date for payment of Base Rent after the date Sublandlord invoices Subtenant therefor (which invoices shall be based on invoices for such costs or expenses received from Landlord).

(c) Rent. All Base Rent, Additional Rent and other monetary sums payable by Subtenant under this Sublease are considered to be "rent."

Landlord Obligations

. With respect to provisions regarding any work, services or other obligations required to be performed by Landlord under the Master Lease, Sublandlord's sole obligation to Subtenant with respect thereto shall be to request performance of the same from Landlord, upon request in writing by Subtenant, and to use reasonable efforts to obtain the performance of such work, services or other obligations by Landlord; provided, however, the foregoing shall not require Sublandlord to institute any legal action to obtain such performance. If Sublandlord fails or refuses to do so after request from Subtenant, Subtenant shall have the right to request the performance of any such work, services or other obligations directly from Landlord, and to institute legal proceedings against Landlord (which may be brought in Sublandlord's name if required by law) as may be required to obtain from Landlord any such work, services or other obligations. Sublandlord agrees to cooperate with Subtenant in connection therewith, at Subtenant's expense, and to execute such documents as may be reasonably required in connection therewith.

4. Landlord Consents. In all cases where the consent or approval of Landlord is required under the Master Lease to take any actions, the consent or approval of Sublandlord shall also be required under this Sublease, and Subtenant shall therefore be required to obtain the consent of both Sublandlord and Landlord before taking such actions. Sublandlord shall use reasonable efforts to obtain any such consents or approvals of Landlord, upon request in writing by Subtenant, but Sublandlord shall not be required to institute any legal action to obtain any such consent or approval. If Sublandlord fails or refuses to do so after request from Subtenant, Subtenant shall have the right to request such consents or approvals directly from Landlord, and to institute legal proceedings against Landlord (which may be brought in Sublandlord's name if required by law) as may be required to obtain from Landlord any such consents or approvals. Sublandlord agrees to cooperate with Subtenant in connection therewith, at Subtenant's expense, and to execute such documents as may be reasonably required in connection therewith.

5. Relationship to Master Lease.

(a) This Sublease and all of Subtenant's rights hereunder are expressly subject and subordinate to all of the terms of the Master Lease, provided that the sum of \$50 million in the second paragraph of Paragraph 17 shall instead be \$5 million. Subtenant shall comply with all obligations of and restrictions imposed on Sublandlord under the Master Lease with respect to the Subleased Premises, except to the extent any such obligations are not applicable to this Sublease or are limited by the terms of this Sublease (e.g., without limitation, Subtenant only pays those amounts of Base Rent and Additional Rent described herein). Subtenant hereby acknowledges that Subtenant shall look solely to Landlord for the performance of all the Landlord's obligations under the Master Lease and, except as expressly set forth herein, Sublandlord shall not be obligated to provide any services to Subtenant in connection with this Sublease. Subtenant acknowledges that any termination of the Master Lease will result in a termination of the Sublease, provided, however, that Sublandlord shall not voluntarily terminate the Master Lease prior to the end of the Term of the Master Lease without the consent of Subtenant.

(b) Except as otherwise expressly provided herein, (i) Sublandlord shall be deemed to have the same rights, in its capacity as "sublandlord" hereunder, as Landlord has in its capacity as "landlord" under the Master Lease; and (ii) Subtenant shall be deemed to have the same rights, in its capacity as "subtenant" hereunder, as Sublandlord has in its capacity as "tenant" under the Master Lease, all to the extent and only to the extent such rights pertain to the use and occupancy of the Subleased Premises (and the parking areas) during the Sublease Term. To the extent the provisions of this Sublease contradict the terms of the Master Lease insofar as they impact Sublandlord's obligations under the Master Lease (such that Sublandlord would be in default under the Master Lease), the terms of the Master Lease shall govern.

(c) Nothing contained in this Sublease shall serve to release Sublandlord from the further performance of any of its obligations under the Master Lease or to relieve Sublandlord from any of its liability under the Master Lease.

Use

. The Subleased Premises shall be used by Subtenant only for general office uses, and services and storage incidental to such uses, and any other uses permitted under the Master Lease.

Default

. Any act or omission by Subtenant that would constitute a default under the Master Lease shall, subject to the same notice and cure provisions provided in the Master Lease, be deemed a default by Subtenant under this Sublease. For purposes of clarification, any failure by Subtenant to pay rent when due hereunder or any failure by Subtenant to perform any other obligations required under this Sublease shall be deemed a default hereunder if any of the same is not cured within the applicable cure period after notice thereof. Any such default by Subtenant shall entitle Sublandlord to exercise any and all remedies available to Landlord under the Master Lease or any other remedies available at law or in equity under the laws of the State of California.

8. Intentionally Omitted.

Quiet Enjoyment

. Provided Subtenant is not in default beyond applicable notice and cure periods hereunder, Subtenant shall have the quiet enjoyment of the Subleased Premises during the Sublease Term without interference by Sublandlord or anyone claiming by, through or under Sublandlord.

Subordination

. Notwithstanding the provisions of Section 9 above, Subtenant accepts this Sublease subject and subordinate to any mortgage, deed of trust or ground lease now or hereafter placed on the Premises or the Building, or any portion thereof, and to replacements, renewals and extensions thereof. This clause shall be self-operative, but upon the request of any mortgagee of Sublandlord or Landlord, Subtenant shall execute a commercially reasonable subordination agreement in favor of such mortgagee or ground lessor.

Insurance and Indemnities

. Subtenant hereby agrees to indemnify and hold Landlord and Sublandlord harmless with regard to Subtenant's leasing and use of the Subleased Premises, to the same extent that Sublandlord is required to indemnify and hold Landlord harmless with respect to the Premises under the Master Lease. Likewise, Subtenant hereby agrees to obtain and provide evidence satisfactory to Sublandlord and Landlord, on or before the Effective Date, that Subtenant is carrying insurance in the same amounts and of the same types required to be carried by Sublandlord under the Master Lease with regard to the Premises. Neither Sublandlord nor Subtenant shall be liable to the other party (by way of subrogation or otherwise) or to any insurance company insuring the other party for any loss or damage to any building, structure or other tangible property, or any resulting loss of income, or losses under workmans' compensation laws and benefits, even though such loss or damage might have been occasioned by the negligence of such party, its agents or employees if, and to the extent, that any such loss or damage is covered by insurance benefitting the party suffering such loss or damage or was required to be covered by insurance pursuant to this Sublease.

12. Intentionally Omitted.

Parking

. During the Sublease Term, Subtenant shall be provided with a sufficient number of parking spaces in the parking area of the Premises as shall be required by the City, which parking spaces shall be in close proximity to the Subleased Premises. Subtenant hereby agrees to comply with all of the terms and conditions of the Master Lease relating to parking.

No Brokers

. Sublandlord and Subtenant each hereby represent and warrant to the other, and shall indemnify and defend the other for any breach of the foregoing representation or warranty hereof by a party, that no brokers' or finders' fees or commissions will be owed arising out of the entering into this Sublease as a result of the warranting party's actions or inactions.

Sublandlord's Representations and Certain Covenants

(a) Sublandlord hereby represents that (i) a true and correct copy of the Master Lease (including, without limitation, all amendments and/or supplements thereto) is attached hereto as Exhibit "A", and the Master Lease is in full force and effect; (ii) Sublandlord has not received or given any notice of default from or to Landlord relating to the Master Lease, and Sublandlord is not aware of any occurrence or circumstance which, with notice or the passage of time, would be deemed a default by either Sublandlord or Landlord under the Master Lease; and (iii) Sublandlord has no knowledge, nor has Sublandlord received written notice from any governmental authority or any other person, of any existing or threatened material violation of any laws applicable to the use or condition of the Premises or any part thereof.

(b) During the Sublease Term, Sublandlord will (i) pay, when and as due, all rent and other charges payable by Sublandlord under the Master Lease, (ii) not exercise any voluntary right to terminate the Master Lease prior to the end of the term of the Master Lease without the prior written consent of Subtenant, and (iii) not amend or modify the Master Lease in any respect which creates additional obligations of Subtenant under this Sublease, or decreases Subtenant's rights under this Sublease, without the prior written consent of Subtenant.

(c) Sublandlord shall indemnify, defend and hold Subtenant harmless from any and all damages suffered by Subtenant as a result of any breach of the foregoing representations, warranties or covenants, which indemnification obligation shall survive any termination of this Sublease.

(d) Sublandlord will perform all of its covenants and obligations under the Master Lease, and will not default thereunder. If Sublandlord receives any notice of default or potential default from Landlord under the Master Lease, Sublandlord will promptly send a copy of such notice to Subtenant, and unless such default results from any act or omission which is a default by Subtenant under this Sublease, Sublandlord will cure such default within any applicable cure period set forth in the Master Lease.

Notices

: Any notice, demand or other communication required or permitted to be given or served by either party to this Sublease shall be in writing, and shall be deemed given when either (i) personally delivered, or (ii) deposited with the United States Postal Service, postage prepaid, by registered or certified mail, return receipt requested, or (iii) delivered by a nationally recognized overnight delivery service providing proof of delivery, properly addressed to the other party at the address set forth below (as the same may be changed by giving written notice of the aforesaid in accordance with this Section 16).

Sublandlord's Address:

228 Manhattan Beach Boulevard
Manhattan Beach, CA 90266
Attn: David Weinberg, COO

With a copy to:

Philip Paccione, Esq.
Skechers U.S.A., Inc.
228 Manhattan Beach Boulevard
Manhattan Beach, CA 90266

Subtenant's Address:

Highland Fairview Properties
14225 Corporate Way
Moreno Valley, CA 92553
Attn: Iddo Benzeevi

With a copy to:

James Lieb, Esq.
Executive Vice President
The Trump Group
400 Park Avenue
New York, NY 10022

Counterparts

. This Sublease may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same document.

Capitalized Terms

. Any capitalized term used in this Sublease which is not defined herein shall have the same meaning attributable to that term in the Master Lease.

Miscellaneous

. This Sublease shall be governed by the laws of the State of California. This Sublease supersedes all prior discussions and agreements between the parties and incorporates their entire Agreement with respect to the matters set forth herein. This Sublease may not be amended or modified except by a writing executed by both parties.

20. Condition of Subleased Premises. The Subleased Premises shall be delivered to Subtenant on the Sublease Commencement Date in its "as is" condition. By accepting possession of the Subleased Premises, Subtenant shall be deemed to have accepted the physical condition thereof, except to the extent that Landlord has made any warranties or representations to Sublandlord as to the condition of the Premises, which may be enforced in the same manner as set forth herein for the enforcement of other obligations of Landlord. Sublandlord has no obligation to improve or construct any improvements to the Subleased Premises. It is understood that any necessary demising wall which shall separate the Subleased Premises from the rest of the Premises shall be constructed by Landlord pursuant to its construction obligations under the Master Lease, and any additional cost thereof imposed by Landlord on Sublandlord shall be paid by Subtenant.

(Remainder of Page Intentionally Left Blank)

IN WITNESS WHEREOF, the parties hereto have executed this Sublease as of the day and year first above written.

SUBLANDLORD:
SKECHERS, U.S.A., INC., a Delaware corporation

By: _____
Name: _____
Title: _____

SUBTENANT:
HIGHLAND FAIRVIEW PROPERTIES, a Delaware
general partnership

By: _____
Name: Iddo Benzeevi
Title: President and Chief Executive Officer

Exhibit "C"-7

Exhibit "A"
Master Lease

Exhibit "C"-8

Exhibit "B"
Subleased Premises

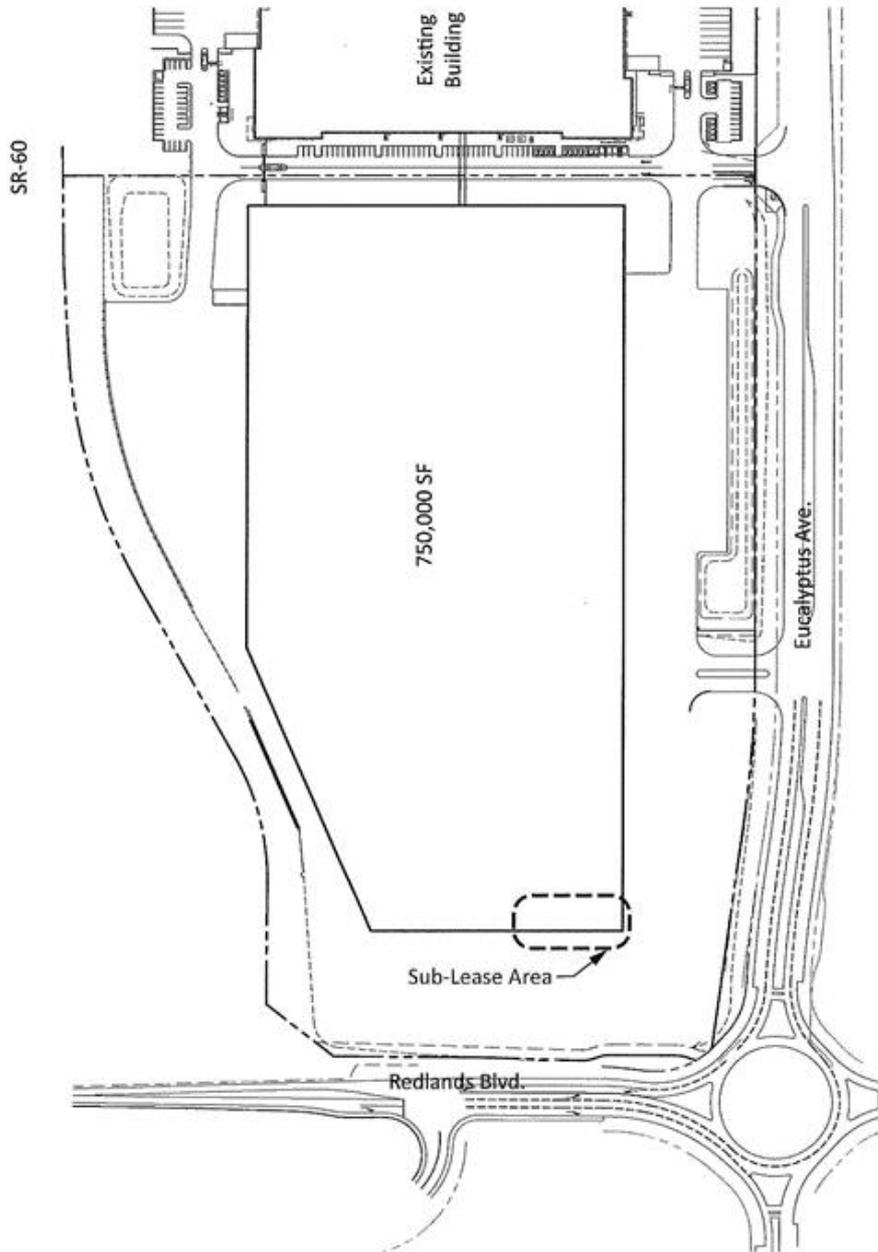


Exhibit "C"-9

SUBSIDIARIES OF THE REGISTRANT

<u>Name of Subsidiary</u>	<u>State/Country of Incorporation/Organization</u>
Skechers By Mail, Inc.	Delaware
Savva's Café, Inc.	Delaware
HF Logistics-SKX, LLC	Delaware
HF Logistics-SKX T1, LLC	Delaware
HF Logistics-SKX T2, LLC	Delaware
Skechers R.B., LLC	Delaware
Duncan Investments, LLC	California
Sepulveda Blvd. Properties, LLC	California
Sepulveda Design Center, LLC	California
BrandBlack, LLC	California
BrandBlack, Inc.	California
Skechers Collection, LLC	California
Skechers Sport, LLC	California
Skechers Holdings USA 1, LLC	California
Skechers Holdings USA 2, LLC	California
Skechers USA Retail, LLC	California
SKX Illinois, LLC	Illinois
Skechers USA, Inc. II	Virginia
Skechers Card Services, LLC	Virginia
Skechers (Barbados) SRL	Barbados
Skechers EDC SPRL	Belgium
Skechers BH d.o.o.	Bosnia & Herzegovina
Skechers Do Brasil Calçados LTDA	Brazil
Skechers USA Canada, Inc.	Canada
Comercializadora Skechers Chile Limitada	Chile
Skechers Footwear (Dongguan) Co., Ltd.	China
Skechers Guangzhou Co., Ltd.	China
Skechers Trading (Shanghai) Co. Ltd.	China
Skechers China E-Commerce Co., Ltd.	China
Skechers China Hengqin Co., Ltd.	China
Leadtime Co., Ltd.	China
Fujian Skechers E-commerce Co., Ltd.	China
Skechers Beijing I Co.,Ltd.	China
Luenseng Trading Co., Ltd.	China
Skechers Chengdu Co., Ltd.	China
Skechers Beijing II Co.,Ltd.	China
Skechers Beijing III Co.,Ltd	China
Skechers Qushui Trading Co., Ltd.	China
Brandblack Guangzhou Co., Ltd.	China
Skechers Taicang Trading & Logistics Company	China
Skechers Kashi Co., Ltd.	China
Skechers Colombia, S.A.S.	Colombia
Sepulveda Footwear Costa Rica, S.R.L.	Costa Rica
Skechers Czech Republic S.R.O.	Czech Republic
Skechers USA, Ltd.	England

Skechers USA France S.A.S.	France
Skechers USA Deutschland GmbH	Germany
Skechers China Limited	Hong Kong
Skechers Hong Kong Limited	Hong Kong
Skechers Southeast Asia Limited	Hong Kong
Skechers Footwear Hong Kong Limited	Hong Kong
Brandblack China Limited	Hong Kong
Skechers CEE Kft.	Hungary
Skechers South Asia Private Limited	India
Skechers Retail India Private Limited	India
Skechers Footwear Ltd.	Israel
Skechers USA Italia S.r.l.	Italy
Skechers Japan GK	Japan
Skechers Holdings Jersey Limited	Jersey
Skechers China Business Trust	Jersey
Skechers International	Jersey
Skechers International II	Jersey
Skechers Macau Limited	Macau
Skechers Malaysia Sdn. Bhd.	Malaysia
Skechers Holdings Mauritius	Mauritius
Skechers USA Mauritius 10	Mauritius
Skechers USA Mauritius 90	Mauritius
Skechers USA Benelux B.V.	Netherlands
Skechers Latin America, LLC	Panama
Skechers Panama, LLC	Panama
Skechers Peru, S.R.L.	Peru
Skechers USA Portugal Unipessoal Limitada	Portugal
Skechers Poland Sp. z o.o.	Poland
Skechers USA Romania S.R.L.	Romania
Skechers Singapore Pte. Limited	Singapore
Skechers Slovakia S.R.O.	Slovakia
Skechers Korea Co., Ltd.	South Korea
Skechers USA Iberia, S.L.	Spain
Skechers S.a.r.l.	Switzerland
Skechers (Thailand) Limited	Thailand
Skechers Vietnam Co. Ltd.	Vietnam

Consent of Independent Registered Public Accounting Firm

Skechers U.S.A., Inc.
Manhattan Beach, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-218369 and 333-147095) of Skechers U.S.A., Inc. of our reports dated March 1, 2019, relating to the consolidated financial statements and financial statement schedule and the effectiveness of Skechers U.S.A., Inc.'s internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO USA, LLP

Los Angeles, California

March 1, 2019

CERTIFICATION

I, Robert Greenberg, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2018 of Skechers U.S.A., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2019

/s/ Robert Greenberg

Robert Greenberg
Chief Executive Officer

CERTIFICATION

I, John Vandemore, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2018 of Skechers U.S.A., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2019

/s/ John Vandemore

John Vandemore
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of Skechers U.S.A, Inc. (the "Company") on Form 10-K for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the date indicated below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert Greenberg

Robert Greenberg
Chief Executive Officer
(Principal Executive Officer)
March 1, 2019

/s/ John Vandemore

John Vandemore
Chief Financial Officer
(Principal Financial and Accounting Officer)
March 1, 2019

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 HAS BEEN PROVIDED TO THE COMPANY AND WILL BE RETAINED BY THE COMPANY AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.