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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
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:

TITLE OF EACH CLASS NAME OF EACH EXCHANGE
----- ON WHICH REGISTERED

Class A Common Stock \$0.001 par value New York Stock Exchange

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K 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 the Form 10-K or any amendment to this
Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the
registrant based upon the closing sales price of its Class A Common Stock on

March 26, 2001 on the New York Stock Exchange was approximately \$419 million.

The number of shares of Class A Common Stock outstanding as of March 26, 2001 was 12,546,972.

The number of shares of Class B Common Stock outstanding as of March 26, 2001 was 23,505,451.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement issued in connection with the 2001 Annual Meeting of the Stockholders of the Registrant are incorporated by reference into Part III.

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SKECHERS U.S.A., INC.
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

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PART I

ITEM 1. BUSINESS

Certain information contained in this report constitutes forward-looking statements which involve risks and uncertainties including, but not limited to, information with regard to our plans to increase the number of retail locations and styles of footwear, the maintenance of customer accounts and expansion of business with such accounts, the successful implementation of our strategies, future growth and growth rates and future increases in net sales, expenses, capital expenditures and net earnings. The words "believes," "anticipates," "plans," "expects," "endeavors," "may," "will," "intends," "estimates," and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties, and our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Risk Factors" and elsewhere in this Report.

GENERAL

Skechers U.S.A., Inc. ("Skechers") designs and markets branded contemporary casual, active, rugged and lifestyle footwear for men, women and children. Our objective is to become a leading source of contemporary casual and active footwear while ensuring the longevity of both Skechers and the Skechers brand name through controlled, well managed growth. We strive to achieve this objective by developing and offering a balanced assortment of basic and fashionable merchandise across a wide spectrum of product categories and styles, while maintaining a diversified, low-cost sourcing base and controlling the growth of our distribution channels. We sell our products to department stores such as Nordstrom, Macy's, Dillard's, Robinsons-May, and JC Penney and specialty retailers such as Footlocker, Lady Footlocker, Kid's Footlocker, Famous Footwear, Genesco's Journeys and Jarman chains, and Footaction U.S.A. We also own and operate Skechers' retail stores and sell product directly to consumers through mail order and web site distribution. We, through major international distributors, sell our products in over 100 countries and territories, with the exception of France and Germany where we sell directly to department stores and specialty retailers.

Our product offerings of men's, women's and children's footwear appeal to a broad customer base between the ages of 5 and 40 years. Our strategy of providing a growing and balanced assortment of quality basic footwear and seasonal and fashion footwear with progressive styling at competitive prices gives Skechers this broader based customer appeal. Our men's and women's footwear are primarily designed with the active, youthful lifestyle of the 12 to 25 year old age group in mind. Our product offerings include casual and utility oxfords, loggers, boots and demi-boots; skate, street and fashion sneakers; hikers, trail runners and joggers; sandals, slides and other open-toe footwear; and dress casual shoes.

Our management and design team collectively possess extensive experience in the footwear industry. Robert Greenberg and Michael Greenberg, the Chairman of the Board and President, respectively, founded Skechers in 1992. Prior to that time, Robert Greenberg co-founded L.A. Gear, Inc. ("L.A. Gear") and, together with a management team which included Michael Greenberg, was instrumental in L.A. Gear's growth until his resignation in early 1992. The Greenbergs are joined on the management team by several design, merchandise, production, and marketing executives with experience in a broad range of industries. We believe this core group comprises an effective and efficient management and design team with the experience to recognize and respond to emerging consumer trends and demands.

FOOTWEAR

Skechers offers men's, women's and children's footwear in a broad range of styles, fabrics and colors. We offer a broad selection of categories in an effort to maximize our ability to respond to changing fashion trends and consumer preferences as well as to limit our exposure to any specific style. We believe that our products and brand offer a broad appeal to men, women and children.

We introduced our first footwear line with the Skechers brand name in December 1992. Since that time, we have expanded our product offerings and grown our net sales while substantially increasing the breadth and penetration of our account base. We currently categorize our footwear into six product lines: (i) Skechers USA, (ii) Skechers Sport, (iii) Skechers Collection, (iv) Skechers Kids, (v) Somethin' Else from Skechers, and (vi) Skechers by Michelle K. These general product lines are offered in varying styles for men, women and children (except for Skechers Collection which is currently offered in men's styles only and Somethin' Else from Skechers and Skechers by Michelle K which are offered in women's styles only).

Skechers USA. Our Skechers USA category includes four types of footwear: (i) Sport Utility, (ii) Utility, (iii) Classics, and (iv) Hikers. The Sport Utility category includes generally "Black & Brown" boots and shoes that have a rugged, less refined design with industrial-inspired fashion features. This category is defined by the heavy-lugged outsole and value-oriented materials employed in the uppers. Uppers are typically constructed of oiled suede and "Crazy Horse" or distressed leathers which enhance the rugged appearance of the boots and oxfords of this category. We design and price this category to appeal primarily to young men with broad acceptance

across age groups. Suggested retail price points range from \$45.00 to \$70.00 for this category. Our Utility styles consist of a single category of boots that are designed to meet the functional demands of a work boot but are marketed as casual footwear. The outsoles of this category are designed to be durable and wearable with Goodyear welted, hardened rubber outsoles. Uppers are constructed of thicker, better grades of heavily oiled leathers. Utility boots may include steel toes, water-resistant or water-proof construction and/or materials, padded collars and Thermolite insulation. Styles include logger boots and demi-boots, engineer boots, motorcycle boots and six- and eight-eyelet work boots. Suggested

retail price points range from \$80.00 to \$100.00 for this category. The Classics styles include comfort oriented design and performance features. Boots and shoes in this category employ softer outsoles which are often constructed of polyvinyl carbon ("PVC"). The more refined design of this footwear employs better grades of leather and linings than those used in our Sport Utility boots and shoes. Uppers are generally constructed of grizzly leather or highly-finished leather that produces a waxy shine. Designs are sportier than the Sport Utility category and feature oxfords, wingtips, monkstraps, demi-boots and boots. Suggested retail price points range from \$55.00 to \$75.00 for this category. Our Hiker styles consist of a single category of boots and demi-boots that include many comfort and technical performance features that distinguish this footwear as Hikers. We market this footwear primarily on the basis of style and comfort rather than on technical performance. However, many of the technical performance features in the Hikers contribute to the level of comfort this footwear provides. Outsoles generally consist of molded and contoured hardened rubber. Many designs may include gusseted tongues to prevent penetration of water and debris, cushioned mid-soles, motion control devices such as heel cups, water-resistant or water-proof construction and materials and heavier, more durable hardware such as metal D-rings instead of eyelets. Uppers are generally constructed of heavily oiled nubuck and full-grain leathers. Suggested retail price points range from \$55.00 to \$100.00 for this category.

Skechers Sport. Skechers Sport or "Active Street" footwear includes skate sneakers, joggers, trail runners, sport hikers and multi-functional shoes inspired by cross-trainers. We distinguish our Skechers Sport category by its technical performance inspired looks; however, generally we do not promote the technical performance features of these shoes. Certain of our skate sneakers are designed with the technical performance features necessary for competitive level skateboarding. The skate sneaker styles ("Street Sneaker") are designed to appeal to the teenager whose casual shoe of choice is a skate or street sneaker and is intended to be retailed through specialty casual shoe stores and department stores. The other Skechers Sport footwear styles include comfort performance not available in the Street Sneaker styles. The Skechers Sport designs are light-weight constructions that include cushioned heels, polyurethane mid-soles, phylon and other synthetic outsoles and white leather or synthetic uppers such as durabuck and cordura and ballistic nylon mesh. The Skechers Sport features electric and technically inspired hues in addition to the traditional athletic white. Skechers Sport is marketed through traditional athletic footwear specialty retailers as well as basic existing accounts. Suggested retail price points range from \$40.00 to \$65.00 for this category.

Skechers Collection. The Skechers Collection features dress casual shoes designed to complement a young man's semi-formal attire. This category features more sophisticated designs influenced, in part, by prevailing trends in Italy and other European countries. As such, this footwear is more likely than other categories to be sourced from Italy and Portugal. Outsoles project a sleeker profile, while uppers are constructed of glossy, "box" leather and aniline, resulting in a highly polished appearance. Designs include monkstraps, wingtips, oxfords, cap toes and demi-boots and often feature blind-eyelets to enhance the sophisticated nature of the styling. Suggested retail price points range from \$85.00 to \$130.00 for this category.

Skechers Kid's. The Skechers Kid's line features a range of products including boots, shoes and sneakers and is comprised primarily of shoes that are designed like their adult counterparts but in "takedown" versions, so that the younger set can wear the same popular styles as their older siblings and schoolmates. This "takedown" strategy maintains the integrity of the product in the premium leathers, hardware and outsoles without the attendant costs involved in designing and developing new products. In addition, we also adapt current fashion from our men's and women's lines by modifying designs and choosing colors and materials that are more suitable to the playful image we have established in the children's footwear market. We also have a Skechers Lights category, which is a line of lighted footwear combining sequencing patterns and lights in the outsole and other areas of the shoes. Our children's footwear is offered at retail prices ranging from \$20.00 to \$50.00.

Somethin' Else from Skechers. The Somethin' Else from Skechers line, introduced in February 2001, is a young women's line that features an array of

stylish shoes, boots and sandals for females between the ages of 12 and 24. This new line is expected to be available to consumers beginning Fall 2001. We designed the line to be a complementary line for the junior customer who already wears Skechers USA and Skechers Sport styles.

Skechers by Michelle K. The Skechers by Michelle K line, also introduced in February 2001, is a new dress casual junior line for trend-savvy young women between the ages of 18 and 34. This new line is expected to be available in Fall 2001.

We offer sandalized footwear which features open-toe and open-side constructions consistent with our offerings in the Skechers USA, Skechers Sport and Skechers Collection categories of footwear. Such footwear includes fisherman's sandals, shower sandals, beach sandals, slides, comfort-oriented land sandals and technically-inspired water sport sandals. Sandalized footwear includes both

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leather and synthetic constructions and may feature suede footbeds with form-fitting mid-soles. We typically deliver our sandalized footwear to retailers from February to August. Suggested retail price points range from \$20.00 to \$60.00 for this category.

PRODUCT DESIGN AND DEVELOPMENT

We believe that our product success is related in a large part to our ability to recognize trends in the footwear markets and to design products which anticipate and accommodate consumers' ever-evolving preferences. We strive to analyze, interpret and translate current and emerging lifestyle trends. Lifestyle trend information is compiled by our designers through various methods designed to monitor changes in culture and society, including (i) review and analysis of modern music, television, cinema, clothing, alternative sports and other trend-setting media, (ii) travel to domestic and international fashion markets to identify and confirm current trends, (iii) consultation with our retail customers for information on current retail selling trends, (iv) participation in major footwear trade shows to stay abreast of popular brands, fashions and styles and (v) subscription to various fashion and color information services. In addition, a key component of our design philosophy is to continually reinterpret both our basic and current successful styles in the Skechers image.

We intend to continue to leverage our reputation for quality products and our relationships with retailers through, among other things, the introduction of new styles in our existing and new categories of footwear. Also, we believe our in stock inventory program enhances our position with retailers. This program increases the availability of our best-selling products, which we believe has contributed to more consistent product flow to our retail customers and an increased ability to respond to reorder demand.

Offer a Breadth of Innovative Products. We have continued to broaden our product line in an effort to reach a larger consumer base. In addition, offering a broader range of products allows us to increase sales to our current customer and consumer base. We offer a wide variety of different styles of footwear generally in three to four different colors and material variations and typically in 10 to 12 different sizes. These styles span a broad spectrum of product categories ranging from skate and street sneakers to fashion sneakers, from steel toe boots with heavy-lugged soles to casual dress shoes for men. We have developed this breadth of merchandise offerings in an effort to improve our ability to respond to changing fashion trends and customer preferences, as well as to limit our exposure to any single industry participant. We do not believe that any single industry participant competes directly with us across our entire product offering. Although major new product introductions take place in advance of both the spring and the fall selling seasons, we typically introduce new

designs in to our existing lines every 30 to 60 days to keep current with emerging trends.

Design Team. All of our footwear is designed with an active, youthful lifestyle in mind. The design team's primary mandate is to design shoes marketable to the 12 to 25 year old consumer. While these designs are contemporary in styling, we believe that substantially all of the line appeals to the broader 5 to 40 year old consumer. Although many of our shoes have performance features, such as hikers, trail runners, skate sneakers and joggers, we generally do not position our shoes in the marketplace as technical performance shoes. Our principal goal in product design is to generate new and exciting footwear with contemporary and progressive style features and comfort enhancing performance features. We do not believe that technology is a differentiating factor in marketing footwear in the casual shoe industry.

The footwear design process typically begins about nine months before the start of a season. Skechers' products are designed and developed by our in-house staff. We also utilize outside design firms on an item-specific basis to supplement our design efforts. Separate design teams focus on each of the men's, women's and children's categories, and report to our senior design executives. The design process is extremely collaborative; members of the design staff meet weekly with the heads of retail and merchandising, sales, production and sourcing to further refine Skechers' products to meet the particular needs of our markets.

After the design team arrives at a consensus regarding the fashion themes for the coming season, the group then translates these themes into Skechers products. These interpretations include variations in product color, material structure and decoration, which are arrived at after close consultation with our production department. Prototype blueprints and specifications are created and forwarded to our prototype manufacturers located in Taiwan, which then forward design prototypes back to our domestic design team. New design concepts are often also reviewed by our major retail customers. 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. Our design team can easily and quickly modify and refine a design based on customer input.

SOURCING

A substantial portion of our products are produced in China. To date, products have been purchased in U.S. Dollars, although we cannot assure you that this will continue to be the case. We do not own or operate any manufacturing facilities. We believe the use of independent manufacturers increases our production flexibility and capacity while at the same time substantially reducing capital expenditures and avoiding the cost of managing a large production work force. We finance our production activities in part through the use of interest-bearing open purchase arrangements with certain of our Asian manufacturers. These facilities currently bear interest

at a rate between 1.0% and 2.0% for 30 to 60 days financing, depending on the factory. We believe that the use of these arrangements affords us additional liquidity and flexibility. While we have long-standing relationships with many of our manufacturers and believe our relationships to be good, there are no long-term contracts between us and any of our manufacturers.

We maintain an in-stock position for selected styles of footwear in order to minimize the time necessary to fill customer orders. In order to maintain an in-stock position, we place orders for selected footwear with our manufacturers prior to the time we receive customers' orders for such footwear. In order to reduce the risk of overstocking, we seek to assess demand for our products by soliciting input from our customers and monitoring retail sell-through. In

addition, we analyze historical and current sales and market data to develop internal product quantity forecasts which helps reduce inventory risks.

Asian Office. To safeguard product quality and consistency, we oversee the key aspects of the production process from prototyping through production to finished product. Monitoring is performed by our domestic production department and from our offices in China and Taiwan. 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 convict, forced, indentured labor (as defined under U.S. law) nor child labor (as defined by 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.

Factories. Manufacturers are selected in large part on the basis of our prior experience with the manufacturer and the amount of available production capacity. We attempt to monitor our selection of independent factories to ensure that no one manufacturer is responsible for a disproportionate amount of our merchandise. We also seek to use, whenever possible, manufacturers that have previously produced our footwear, which we believe enhances continuity and quality while controlling production costs. In addition, we source product for styles that account for a significant percentage of our net sales from at least four different manufacturers. For the year ended December 31, 2000, we had four manufacturers which accounted for between 9% and 20%, each, of total purchases.

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 finished goods not only meet our established design specifications, but also that all goods bearing our trademarks meet our standards for quality. Quality control personnel perform an array of inspection procedures at various stages of the production process, including examination and testing of (i) prototypes of key raw materials prior to manufacture, (ii) samples and materials at various stages of production and (iii) final products prior to shipment. Our employees are on-site at each of our major manufacturers to oversee key phases of production. In addition, unannounced visits to the manufacturing sites, to further monitor compliance with our manufacturing specifications, are made by our employees and agents.

MARKETING AND PROMOTION

Our marketing focus is to maintain and enhance recognition of the Skechers brand name as a casual, active youthful brand that stands for quality, comfort and design innovation. Senior management is directly involved in shaping our image and our advertising and promotional activities. Towards this end, we endeavor to spend between 8% and 10% of annual net sales in the marketing of our footwear through an integrated effort of advertising, promotions, public relations, trade shows and other marketing efforts, which we believe substantially heightens brand awareness.

Advertising. We believe that our success to date is due in large part to our advertising strategies and methods. Our in-house marketing and advertising team has developed a comprehensive program to promote the Skechers brand name through lifestyle and image advertising. We have made a conscious effort to avoid the association of the Skechers name with any single category of shoe to provide merchandise flexibility and to aid the ability to take the brand and product design in the direction of evolving footwear fashions and consumer preferences. We use a variety of media for our national advertising. Print efforts are represented by one and two page ads displayed in popular fashion and lifestyle consumer publications that appeal to our target customer group. Our progressive television advertisements are primarily produced in-house and air frequently on top television shows. Different advertisements are created for each of the 5 to 9, 10 to 24 and 25 to 35 year old consumer groups.

Certain of our retail accounts feature "in-store shop" formats in which we provide fixtures, signage and visual merchandise assistance in a dedicated floor space within the store. The design of our "in store shop" utilizes our distinct

advertising strategies to promote brand recognition and differentiate our presence in the store from that of our competition. The installation of these "in-store shops" enables us to establish premium locations within the retailers and we believe it aids in increased sell-through and higher maintained margins for our customers. Our in-house display merchandising department supports retailers and distributors by developing point-of-purchase advertising to further promote our products in stores and to leverage the brand recognition at the retail level.

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Promotions. Our in-house promotions department is also responsible for building national brand name recognition. Teaming up with national retailers and radio stations, the promotions department is responsible for cross promotions, which help draw customers to retail store locations.

Public Relations. Our in-house public relations department is also responsible for increasing our media exposure. Our objective is to communicate the Skechers image to the public and news media through the active solicitation of fashion editorial placements, arranging interviews for our key personnel and coordinating local publicity and special event programs for us. During 2000, we received notable press coverage in print publications including the New York Times, the Los Angeles Times, Investors Business Daily and BusinessWeek. Skechers was noted in the press in BusinessWeek's top 100 hot growth companies and ranked in the number five position; for receiving Footwear Plus' Young Women's Excellence in Design award; and, in DNR, as a top footwear brand for the Generation Y male. With our strategy tied to promoting the newest styles produced by the product development team, our products are often featured in fashion and pop culture magazines and in a select group of films and popular television shows.

Endorsements. In 2000, we signed our first celebrity endorsement agreements in an effort to strategically leverage and market the Skechers brand to specific consumer groups. We signed singer Britney Spears for an international (worldwide excluding the United States) print media campaign through June 2002. We signed actor Matt Dillon for a Skechers Collection print media campaign, which will appear in magazines through January 2002. We also signed actor Rob Lowe for a limited term print media campaign. From time to time, we may sign other celebrities to endorse the brand and to strategically focus marketing, but there are currently no other endorsements planned.

Trade Shows. To showcase the Skechers product to footwear buyers, we exhibited at 21 trade shows during 2000. We pride ourselves on having innovative and dynamic exhibits on the show floor. Designed in-house, our state-of-the-art trade show exhibits feature the latest products and provide a stage show featuring progressive music and nightclub lighting.

Electronic Commerce and Mail-Order Catalog. During 2000, we continued the production and distribution of our mail order catalog. The mail order catalog offers a selection of the most popular products sold at retail. Concurrent with the distribution of each catalog, our interactive website (www.skechers.com) is expanded to include the offerings of the current catalog. Our website also features photos, interviews and information on Skechers-sponsored events. Our website and mail-order catalog are intended to further enhance the Skechers brand image.

DISTRIBUTION CHANNELS

We have implemented a strategy of controlling the growth of the distribution channels through which our products are sold in order to protect the Skechers brand name, properly service customer accounts and better manage the growth of the business. We have limited distribution of our product to those retailers that we believe can best support the Skechers brand name in the market. By focusing on our existing accounts, we can deepen our relationships with our

existing customers by providing a heightened level of customer service. We believe close relationships with our customers help us to maximize our (i) retail sell-through, (ii) maintained margins, (iii) inventory turns, (iv) and reduce our inventory markdowns and customer returns and allowances.

Sales and Field Service Representatives. As of February 28, 2001, we had 102 and 15 sales and field service representatives, respectively. Each of the sales representatives is compensated on a salary plus commission basis; the representatives sell Skechers products exclusively. Senior management is actively involved in selling to and maintaining relationships with our major retail accounts. For the year ended December 31, 2000, the top five sales persons accounted for 36.1% of our net domestic wholesale sales. One of these salespersons generated 14.0% of our net domestic wholesale sales for the year ended December 31, 2000.

The field service representatives ensure proper presentation of our merchandise and point-of-purchase marketing materials. Our sales and field service personnel work closely with the accounts to coordinate the appropriate inventory level and product mix that should be carried in each store in an effort to help retail sell-through and enhance the customer's product margin. Such information is then used as a basis for developing sales projections and product needs for such customers. This information in turn assists us with scheduling production. Along with a staff of in-house customer service employees, we are committed to achieving customer satisfaction and to building a loyal customer base by providing a high level of knowledgeable, attentive and personalized customer service.

Concept Stores. As of December 31, 2000, we operated 24 concept stores at marquee locations in major metropolitan cities. The stores are typically designed to create a distinctive Skechers look and feel and enhance customer association of the Skechers brand with current youthful lifestyle trends and styles. The concept stores feature modern music and lighting and present an open floor design to allow customers to readily view the merchandise on display. These concept stores serve a threefold purpose in our operating strategy. First, concept stores showcase a wide range of our product offerings for the current season, providing the customer with the entire product story. In contrast, we estimate that our average retail customer carries no more than 5.0% of the complete Skechers line.

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Second, retail locations are generally chosen to generate maximum marketing value for the Skechers brand name through signage and store front presentation. Third, our concept stores also serve as marketing and product testing venues by providing rapid product feedback. We believe that product sell-through information derived from our concept stores enables our sales, merchandising and production staff to respond quickly to market changes and new product introductions. We occasionally order limited production runs which may initially be tested in Skechers' concept stores. By working closely with store personnel, we obtain customer feedback that often influences product design and development. We believe that sales in our retail stores can help forecast sales in national retail stores. Such responses serve to augment sales and limit our inventory markdowns and customer returns and allowances. We adjust our product and sales strategy based upon seven to 14 days of retail sales information.

We seek to instill enthusiasm and dedication in our concept store management personnel and sales associates through incentive programs and regular communication with store personnel. Sales associates receive commissions on sales with a guaranteed minimum compensation. Concept store managers receive base compensation plus incentive compensation based on sales. We have well-established concept store operating policies and procedures and utilizes an in-store training regimen for all new store employees. Merchandise presentation instructions and detailed product descriptions also are provided to sales associates to enable them to gain familiarity with Skechers product offerings.

Factory and Warehouse Outlet Stores. As of December 31, 2000, we also operated 28 factory and warehouse outlet stores that enable us to liquidate excess, discontinued and odd-size inventory in a cost-efficient manner. Inventory in these stores is supplemented by certain first-line styles sold at full retail price points. The factory outlet stores are generally located in manufacturers' outlet centers throughout the country. Our factory outlet stores have enabled us to increase sales in certain geographic markets where our products were not previously available and to consumers who favor value-oriented retailers. The outlets provide opportunities for us to sell discontinued and excess merchandise, thereby reducing the need to sell such merchandise to discounters at excessively low prices. Our free-standing warehouse outlet stores enable us to liquidate other excess merchandise, discontinued lines and odd sizes. We strive to geographically position our factory and warehouse outlet stores to areas not supported by traditional footwear retailers that would carry our brand.

Other Direct Distribution Outlets. Our mail-order catalog and website act as sales vehicles. We believe that these distribution channels will not become a significant portion of total revenues for us in the near term; however, we believe that they may present attractive long-term opportunities with minimal near-term costs.

INTERNATIONAL OPERATIONS

Although our primary focus is on the domestic market, we presently market our products in countries and territories in Europe, Asia and selected other foreign regions. We derive revenues and earnings from outside the United States from three principal sources: (i) sales of our footwear directly to foreign distributors who distribute such footwear to department stores and specialty retail stores, (ii) in France and Germany, we sell footwear directly to department stores and specialty retail stores and (iii) to a lesser extent, royalties from licensees who manufacture and distribute our products outside the United States.

We believe that international distribution of our products may represent a significant opportunity to increase revenues and profits. Although we are in the early stages of our international expansion, our products are currently sold in more than 100 countries and territories. Our goal is to increase international sales, through both foreign distributors and directly, by heightening our international marketing presence in those countries. During 2000, we continued our international advertising campaigns, which are designed to establish Skechers as a global brand synonymous with casual shoes. We are also exploring further direct sales to retailers in certain European countries. In February 2001, we announced the creation of Skechers USA Ltd., a subsidiary with its headquarters in London, England. Skechers USA Ltd. will organize its operations in the United Kingdom and Ireland and establish direct control over wholesale distribution, merchandising, and marketing in that region. In addition, we are selectively opening flagship retail stores internationally on our own or through joint ventures. In February and March 2001, we opened our first flagship retail stores on Oxford Street in London and in the prestigious Centro Mall in Oberhausen, Germany, respectively. We also plan to open a flagship store at the Forum Les Halles in Paris by the end of Spring 2001.

DISTRIBUTION FACILITY

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 and either shipped to our approximately 962,000 square feet of Skechers managed distribution centers located in Ontario, California, or shipped directly from the manufacturer to our international customers. During 2000, we increased our distribution capacity with the purchase of an approximately 264,000 square foot distribution center located in Ontario, California. We lease the remaining distribution space of approximately 698,000 square feet.

POTENTIAL LICENSING ARRANGEMENTS

We believe that selective licensing of the Skechers brand name to non-footwear-related manufacturers may broaden and enhance the Skechers image without requiring significant capital investments or additional incremental operating expenses by us. From time to time, we have experimented with certain manufacturers on a very limited basis to study the potential impact of licensing the brand. We periodically review potential internationally licensing arrangements for footwear in various geographical regions that present favorable business opportunities. We believe that revenues from licensing agreements will not provide a significant portion of our net revenues in the near term; however, we believe that licensing arrangements may present attractive long-term opportunities with minimal near-term costs.

BACKLOG

We generally receive the bulk of our orders for each of the spring and fall seasons a minimum of three months prior to the date the products are shipped to customers. At December 31, 2000, our backlog was \$221.6 million, compared to \$121.7 million at December 31, 1999. While backlog orders are subject to cancellation by customers, we have not experienced significant cancellation of orders in the past and we expect that substantially all the orders will be shipped in fiscal 2001. However, for a variety of reasons, including the timing of shipments, product mix of customer orders and the amount of in-season orders, backlog may not be a reliable measure of future sales for any succeeding period.

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 81 foreign countries. We also have design patents, and pending design and utility patent applications, in both the United States and various 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 the marketing of 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, trade secret protection, non-disclosure agreements and licensing arrangements to establish, protect and enforce intellectual property rights in our logos, tradenames 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. Despite our efforts to safeguard and maintain our intellectual property rights, we cannot assure you that we will be successful in this regard. We cannot assure you that third parties will not assert intellectual property claims against us in the future. Furthermore, we cannot assure you 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 and results of operations. In addition, although any such claims may ultimately prove to be without merit, the necessary management attention to and legal costs associated 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 have materially impaired our ability to utilize our trademarks.

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, we cannot assure you that these efforts will be successful or that the costs associated with protecting our rights in certain jurisdictions will not 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. We cannot assure you that actions taken by us to establish and protect our trademarks and other intellectual property rights will 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 us and generally have a material adverse effect on our business, financial condition and results of operations.

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COMPETITION

Competition in the footwear industry is intense. 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 utility footwear and casual shoes compete with footwear offered by companies such as The Timberland Company, Dr. Martens, Kenneth Cole Productions, Steven Madden, Ltd. and Wolverine World Wide, Inc. Our athletic shoes compete with brands of athletic footwear offered by companies such as Nike, Inc., Reebok International Ltd., Adidas-Salomon AG and New Balance. Our children's shoes compete with brands of children's footwear offered by The Stride Rite Corporation. 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 considerations. These and other competitors pose challenges to our market share in our major domestic markets and may make it more difficult to establish Skechers in Europe, Asia and other international regions. We also compete with numerous manufacturers, importers and distributors of footwear for the limited shelf space available for the display of such products to the consumer. Moreover, the general availability of contract manufacturing capacity allows ease of access by new market entrants. Many of our competitors are larger, have achieved greater recognition for their brand names, have captured greater market share and/or have substantially greater financial, distribution, marketing and other resources than us. We cannot assure you that we will be able to compete successfully against present or future competitors or that competitive pressures faced by us will not have a material adverse effect on our business, financial condition and results of operations.

EMPLOYEES

As of February 28, 2001, we employed 1,666 persons, 917 of which were employed on a full-time basis and 749 of which were employed on a part-time basis. None of our employees are subject to a collective bargaining agreement. We believe that our relations with our employees are satisfactory. We offer our employees a discount on Skechers merchandise to encourage enthusiasm for the product and Skechers loyalty.

RISK FACTORS

In addition to the other information in this Form 10-K, the following factors should be considered in evaluating us and our business.

OUR FUTURE SUCCESS DEPENDS ON OUR ABILITY TO RESPOND TO CHANGING CONSUMER

DEMANDS AND TO IDENTIFY AND INTERPRET FASHION TRENDS.

The footwear industry is subject to rapidly changing consumer demands and fashion trends. Accordingly, we must identify and interpret fashion trends and respond in a timely manner. If we do not continue to meet changing consumer demands or develop successful styles in the future, then we may not be successful. Sometimes, we must make decisions about product designs several months in advance. If we fail to anticipate, identify or react appropriately to changes in styles and trends our failure may result in lower sales, excess inventories, higher inventory markdowns, and impaired brand image.

A failure to anticipate trends may also lead to lower gross margins as a percentage of net sales since we may have to provide allowances and discounts to retailers. Conversely, if we fail to anticipate consumer demand for our products, we may experience inventory shortages. Inventory shortages might delay shipments to customers, negatively impact retailer and distributor relationships, and diminish brand loyalty.

CONSUMERS MAY CONSIDER OUR BRAND OUTMODED.

Even if we react appropriately to changes in consumer preferences, there is always a risk that consumers may consider our brand image to be outmoded or associate the brand with styles of footwear that are no longer popular. As a result of these risks, several footwear companies have experienced periods of rapid growth in revenues and earnings followed by periods of declining sales and losses which, in some cases, have resulted in a decision to cease doing business.

OUR NEW STYLES OF FOOTWEAR MAY NOT BE POPULAR.

We intend to market new lines of footwear in the future. Demand for and market acceptance of these new products are uncertain. In addition, achieving market acceptance for new products may require substantial marketing efforts. We cannot be sure that our marketing efforts will be successful or that we will have the funds necessary to sufficiently market the new products. Our growth and profitability could be materially and adversely impacted if our marketing efforts and new products are not successful.

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OUR BUSINESS MAY BE ADVERSELY AFFECTED IF ANY STYLE OF FOOTWEAR REPRESENTS A SUBSTANTIAL PORTION OF OUR NET SALES.

If consumer demand for a style or group of styles that represents a substantial portion of our net sales decreases then our business may be adversely affected. In the past, we have experienced decreased consumer demand for a style of footwear that represented a significant portion of our sales and our gross sales were adversely affected as a result. This style no longer represents a significant portion of our sales. We now offer a broad range of products and no style comprised over 10% of our gross wholesale sales, net of discounts, for the year ended December 31, 2000. Nonetheless, it is always possible that fluctuations in sales of styles that represent a significant portion of our net sales will occur in the future. Such fluctuations could have harm our business.

IF WE FAIL TO MANAGE OUR GROWTH EFFECTIVELY, IT COULD HAVE AN ADVERSE EFFECT ON OUR BUSINESS.

In the past, we have experienced rapid growth and we intend to continue to pursue an aggressive growth strategy by expanding our marketing and promotion efforts, frequently introducing new products, broadening our lines of casual and performance footwear, and increasing our international market. Our growth strategy may place a significant strain on our finances, management and other resources. Our future performance will depend on various factors, including our

ability to manage increased sales and additional retail stores, manage change in our domestic and international operations, attract, train, manage and retain management, sales, marketing and other key personnel, and continue to improve our operational and financial control systems, infrastructure and management information systems. We cannot be sure that these expansion efforts will be successfully completed or that they will not interfere with existing operations. If our management cannot manage growth effectively it could harm our business.

WE MAY BE UNABLE TO SUSTAIN OUR PRIOR RATE OF GROWTH.

We have grown quickly since we started our business. Our net sales increased at a compound annual growth rate of 39.7% from \$90.8 million in 1994 to \$675.0 million in 2000. From 1999 to 2000, we experienced a 59% increase in net sales and 109% increase in earnings from operations. Our future rate of growth will depend upon, among other things, the continued success of our efforts to expand our footwear offerings and distribution channels. Our profitability in any calendar quarter depends, in part, upon the timing and level of advertising and trade show expenditures, and shipments of seasonal merchandise. Our rate of growth may decline or we may not be profitable in any quarter of any succeeding fiscal year. Furthermore, as our business becomes larger, we may not be able to maintain our prior growth rate. Our current growth strategy includes further penetration of existing retail accounts, opening retail stores in selected locations, increasing our international operations, and distributing in countries where we have little distribution experience or where our brand name is not well known. Our future success depends on various factors, including (i) the strength of our brand name, (ii) market success of current and new products, (iii) competitive conditions and our ability to manage increased sales and additional retail stores, (iv) the availability of desirable locations, and (v) increasing sales to existing customers. We cannot assure you that our current growth strategy or other growth strategies will be successful or that our sales or earnings will increase as a result of the implementation of such efforts.

OUR BUSINESS MAY BE NEGATIVELY IMPACTED AS A RESULT OF CHANGES IN THE ECONOMY.

Our industry is dependent on the general economic environment and levels of consumer spending which affect not only the ultimate consumer, but also retailers, our primary direct customers. Purchases of footwear tend to decline in periods of recession or uncertainty regarding future economic prospects, when consumer spending, particularly on discretionary items, declines. We may not be able to increase our sales to existing customers, open and operate new retail stores or increase our international operations on a profitable basis or improve our earnings from operations as a percentage of net sales. As a result, our operating results may be adversely affected by downward trends in the economy or the occurrence of events that adversely affect the economy in general. Furthermore, in anticipation of continued increases in net sales, we have significantly expanded our infrastructure and workforce to achieve economies of scale. Because these expenses are fixed in the short term, operating results and margins could be adversely impacted if we do not continue to grow as anticipated.

OUR INTERNATIONAL SALES AND OPERATIONS COULD ADVERSELY EFFECT OUR BUSINESS.

Substantially all of our net sales for the year ended December 31, 2000 were derived from sales of footwear manufactured in other foreign countries, with most manufactured in China. 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 (i) work stoppages, (ii) transportation delays, (iii) changing economic conditions, (iv) expropriation, (v) international political tension, (vi) political and social unrest, (vii) nationalization, (viii) the imposition of tariffs, (ix) import and export controls and other nontariff barriers, (x) exposure to different legal standards (particularly with respect to intellectual property), (xi) compliance with foreign laws, and (xii) changes in domestic and foreign governmental policies. Each of these risks could harm our business.

In addition, if we, or our suppliers, violate U.S. laws or regulations we may be subjected 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 U.S. 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 under U.S. or foreign laws. These risks could render our conduct of business in a particular country undesirable or impractical and have a negative impact on our business, financial condition and results of operations. We continue to monitor the political and economic stability of the Asian countries with which we conduct business.

WE COULD BE ADVERSELY AFFECTED IF THE CHINESE GOVERNMENT CHANGES ITS POLICIES TOWARDS THE UNITED STATES OR NATIONALIZES PRIVATE ENTERPRISE.

Over the past several years, the Chinese government has pursued economic reform policies and has encouraged greater private economic activity and economic decentralization. The Chinese government may not continue to pursue these policies or may significantly alter them to our detriment from time to time without notice. Manufacturers with whom we work could be affected by changes in policies by the Chinese government resulting in changes in laws, regulations, or their interpretation, the imposition of confiscatory taxation, restrictions on currency conversion or imports, and changes in the sources of supply. These risks could harm our business.

WE COULD SUFFER LOSSES FROM CORRUPT OR FRAUDULENT BUSINESS PRACTICES.

Conducting business in China is inherently risky. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices are common in China. We could suffer losses from these practices if we do not implement successful preventative measures.

WE COULD BE ADVERSELY BE AFFECTED BY CURRENCY FLUCTUATIONS.

Even though we have not experienced material losses as a result of fluctuations in the value of foreign currencies, our net sales and cost of goods sold are denominated in U.S. Dollars and we do not engage in currency hedging, therefore we could be adversely affected by currency fluctuations in the future.

TRADE RESTRICTIONS COULD HARM OUR BUSINESS.

Our products are subject to certain quotas and restrictions on foreign products in some of the foreign countries where our footwear is sold. To date, these quotas have not had a material adverse effect on our business, financial condition or results of operations. However, the quotas or restrictions may be modified or altered at any time. In addition, countries where our products are manufactured may impose new quotas or adjust existing quotas or other restrictions on exported products. The United States might also impose new duties, tariffs and other restrictions on imported products, any of which could have a material adverse effect on our business, financial condition and results of operations. New duties, tariffs or other restrictions could also affect our ability to import products at our current levels or at increased levels and, consequently, harm our business. If tariffs or duties on our products are raised or made more restrictive, it may result in higher costs and could negatively impact our business.

WE DEPEND ON CONTRACT MANUFACTURERS.

Our footwear products are currently manufactured by independent contract manufacturers. For the year ended December 31, 2000, the top four manufacturers of our manufactured products produced approximately 9%-20% each of total purchases. We do not have long-term contracts with manufacturers and we compete with other footwear companies for production facilities. Although we have

established close working relationships with our principal manufacturers, we must maintain those relationships and develop new relationships with additional manufacturers. It is possible that we may 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 cancellation of orders, refusal to accept deliveries or a reduction in purchase prices, any of which could harm our business.

If our current manufacturers cease doing business with us, we could experience an interruption in the manufacture of our products, which could have a material adverse effect on our business, financial condition and results of operations. Although we believe that we could find alternative manufacturers within 90 to 120 days, new manufacturing relationships involve various uncertainties, including payment terms, costs of manufacturing, adequacy of manufacturing capacity, quality control, and timeliness of delivery. We may be unable to establish new manufacturing relationships that will be as favorable as the relationships we have now. If we are unable to provide products consistent with our standards or the manufacture of our footwear is delayed, our business could be harmed.

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OUR BUSINESS COULD BE NEGATIVELY IMPACTED IF OUR CONTRACT MANUFACTURERS VIOLATE THE LAW.

We require our independent contract manufacturers to operate in compliance with applicable laws and regulations. We also require our manufacturers to certify that neither convict, forced, indentured labor (as defined under U.S. law) nor child labor (as defined by the manufacturer's country) is used in the production process, that compensation will be paid in accordance with local law and that the factory is 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, we do not control these vendors or their labor practices. If one of our independent contract manufacturers violates the labor or other laws, it could result in adverse publicity for us and harm our business. In addition, if the United States Customs Service determines that laws or regulations have been violated or that we failed to exercise reasonable care in our obligations to comply with these laws or regulations we may incur significant penalties that maybe monetary or otherwise.

WE ARE DEPENDENT ON KEY CUSTOMERS.

During the year ended December 31, 2000, our net sales to our five largest customers accounted for approximately 26.5% of total net sales. No one customer accounted for 10.0% or more of net sales during the year ended December 31, 2000. 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 has experienced consolidation, contractions and closings. If there are further consolidations, contractions or closings in the future, we may lose customers or be unable to collect accounts receivables of major customers in excess of amounts that we have insured. As of December 31, 2000, we had one customer that accounted for 15.3% of trade accounts receivable. 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 in excess of amounts insured, our business could be harmed.

WE DO NOT HAVE NON-COMPETITION AGREEMENTS WITH OUR SALESPERSONS.

We have entered into employment agreements with each of our salespersons. Although these employment agreements require our salespersons to keep certain information confidential, we have not entered into separate non-competition

agreements with them. In addition, if a salesperson leaves or is terminated, service may be disrupted to the customers who were serviced by this salesperson. These factors could harm our business.

SEASONAL FLUCTUATIONS IN DEMAND FOR FOOTWEAR AND DELIVERY DELAYS MAY AFFECT OUR QUARTERLY NET SALES.

Sales of footwear products have historically been somewhat seasonal in nature with the strongest sales generally occurring in the third and fourth quarters. During 2000, we continued to address seasonal fluctuations by introducing new styles that addressed seasonal demands. We have experienced and expect to continue to experience some variability in our net sales, operating results and net earnings on a quarterly basis.

Our domestic customers generally assume responsibility for scheduling pickup and delivery of purchased products. Delays in scheduling or pickup which are beyond our control could materially negatively impact our net sales and results of operations for any given quarter. We believe the factors which influence this variability include (i) the timing of our introduction of new footwear products, (ii) the level of consumer acceptance of new and existing products, (iii) general economic and industry conditions that affect consumer spending and retail purchasing, (iv) the timing of the placement, cancellation or pickup of customer orders, (v) increases in the number of employees and overhead to support growth, (vi) the timing of expenditures in anticipation of increased sales and customer delivery requirements, (vii) the number and timing of new retail store openings, and (viii) actions by competitors. Due to these and other factors, the results for any particular quarter are not necessarily indicative of results for the full year. This cycle and any related fluctuations in consumer demand could have a material adverse effect on our business, financial condition and results of operations.

IF WE FAIL TO MAINTAIN APPROPRIATE LEVELS OF INVENTORY, OUR BUSINESS COULD BE HARMED.

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. However, we cannot assure you that we will be able 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 could significantly impair our brand image and could have a material adverse effect on our business, financial condition and results of operations.

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WE MAY HAVE SIGNIFICANT CAPITAL REQUIREMENTS AND EXPENDITURES AS A RESULT OF OUR AGGRESSIVE GROWTH STRATEGY.

We expect that cash flow from operations, available borrowings under our revolving line of credit, cash on hand and our financing arrangements will be sufficient to provide us with the liquidity to fund our anticipated working capital and capital requirements through 2001. We will, however, have significant working capital requirements and capital expenditures as a result of our aggressive growth strategy. Our future capital requirements will depend on factors such as (i) the levels at which we maintain inventory, (ii) the market acceptance of our footwear, (iii) the levels of promotion and advertising required to promote our footwear, (iv) the extent to which we invest in new product design, (v) improvements to our existing product design, and (vi) the number and timing of new store openings.

If available funds are insufficient to fund our future activities, we may need to raise additional funds through public or private financing. We cannot be

sure that additional financing will be available or that, if available, it can be obtained on terms that will be favorable to us. If we fail to obtain such financing, we may not be able to complete our planned expansion and our business could be harmed. In addition, if we raise additional capital through the sale of additional equity or convertible securities, our stockholders' ownership may be diluted.

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 David Weinberg, Executive Vice President and Chief Financial Officer. Each of these officers currently has a three-year employment contract with us, each agreement was entered into on June 14, 1999. These agreements do not have non-competition provisions upon termination of employment. The loss of the services of any of these individuals or any other key employee could have a material adverse effect on our business, financial condition and results of operations. We maintain \$5.0 million of "key man" life insurance on the life of Robert Greenberg. Our future success also depends on our ability to identify, attract and retain additional qualified personnel. Competition for employees in our industry is intense. Furthermore, we may not be successful in identifying, attracting and retaining qualified employees in the future. The loss of key employees or the inability to hire or retain qualified employees in the future could harm our business.

ONE PRINCIPAL STOCKHOLDER IS ABLE TO CONTROL SUBSTANTIALLY ALL MATTERS REQUIRING A VOTE OF OUR STOCKHOLDERS.

Robert Greenberg, Chairman of the Board and Chief Executive Officer, beneficially owns 72.7% of our outstanding Class B Common Stock. The holders of Class A Common Stock and Class B Common Stock have identical rights except that holders of Class A Common Stock are 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 the stockholders. As a result, Mr. Greenberg holds approximately 69.0% of the aggregate number of votes eligible to be cast by our stockholders. Therefore, Mr. Greenberg is able to control substantially 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 control over our management and affairs. As a result of such control, certain transactions are not possible without the approval of Mr. Greenberg, 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 Class A Common Stock. The differential in the voting rights may adversely affect the value of the Class A Common Stock to the extent that investors or any potential future purchaser view the superior voting rights of the Class B Common Stock to have value.

OUR CHARTER DOCUMENTS AND DELAWARE LAW MAY INHIBIT A TAKEOVER, WHICH MAY CAUSE A DECLINE IN 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 the Class A and Class B Common Stock, the classification of the 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 the Class A Common Stock.

WE CANNOT ASSURE YOU THAT THE TRADING MARKET FOR OUR CLASS A COMMON STOCK WILL REMAIN ACTIVE, AND THE PRICE OF OUR STOCK MAY BE VOLATILE.

The market price of our Class A Common Stock has been extremely volatile. During 2000, our Class A Common Stock reached a high of \$19.94 per share and a low of \$3.25. On December 31, 2000, the closing market price was \$15.50 per share. The market

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price for shares of our Class A Common Stock may continue to fluctuate based upon a number of factors, including, without limitation (i) business performance, (ii) news announcements, (iii) quarterly fluctuations in our financial results, (iv) changes in earnings estimates, (v) recommendations by analysts, (vi) changes in general economic and market conditions, or (vii) a failure to meet the expectations of securities analysts or investors in a future quarter. These same factors could have a material adverse effect on the market price of our Class A Common Stock.

THE SALES OF SUBSTANTIAL AMOUNTS OF OUR CLASS A COMMON STOCK IN THE PUBLIC MARKET OR THE PROSPECT OF SUCH SALES COULD MATERIALLY AND ADVERSELY AFFECT THE MARKET PRICE OF THE CLASS A COMMON STOCK.

As of March 26, 2001, we had outstanding 12,546,972 shares of Class A Common Stock. In addition, we had outstanding 23,505,451 shares of Class B Common Stock, all of which are convertible into Class A Common Stock on a share-for-share basis at the election of the holder or upon transfer or disposition to certain persons. The 12,546,972 shares of Class A Common Stock are eligible for sale in the public market without restriction. The 23,505,451 shares of Class B Common Stock are restricted in nature and are saleable pursuant to Rule 144 under the Securities Act of 1933.

As of March 26, 2001, Robert Greenberg, Chairman of the Board and Chief Executive Officer, and Michael Greenberg, President, beneficially own an aggregate of 18,948,619 shares of Class B Common Stock. Robert and Michael Greenberg have also received certain registration rights to sell shares of Class A Common Stock which will be issuable upon conversion of their shares of Class B Common Stock in the public market. Shares of Class A Common Stock reserved for issuance pursuant to our Stock Option Plan and the 1998 Employee Stock Purchase Plan have also been registered under the Securities Act of 1933.

SPECIAL NOTE ON FORWARD LOOKING STATEMENTS AND REPORTS PREPARED BY ANALYSTS.

The Form 10-K contains or incorporates forward-looking statements. You can identify these forward-looking statements by our use of the words "believes," "anticipates," "plans," "expects," "endeavors," "may," "will," "intends," "estimates" and similar expressions, whether in the negative or affirmative. Although we believe that these forward-looking statements reflect our plans, intentions and expectations reasonably, we may not actually achieve these plans, intentions or expectations. In addition, the risks included here are not exhaustive. Other sections of this report may include additional factors which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and we cannot predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Investors should also be aware that while we do, from time to time, communicate with securities analysts, we do not disclose any material non-public information or other confidential commercial information to them. Accordingly, individuals should not assume that we agree with any statement or report issued by any analyst, regardless of the content of the report. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

ITEM 2. PROPERTIES

Our corporate headquarters and additional administrative offices are located at four premises in Manhattan Beach, California, and consist of an aggregate of approximately 100,000 square feet. We own and lease portions of our corporate headquarters and administrative offices. The leased property expires between February 2002 and February 2008, with options to extend in some cases, and the current aggregate annual rent is approximately \$1.1 million.

We also lease space for our distribution centers and our retail stores. These leased facilities aggregate approximately 1.0 million square feet, with an annual aggregate base rental of approximately \$10.7 million, plus, in some cases, a percentage of the store's gross sales in excess of the base annual rent. The terms of these leases vary as to duration and rent escalation provisions. We have also signed leases for retail stores expected to be opened in 2001. In general, the leases expire between January 2002 and August 2011 and provide for rent escalations tied to either increases in the lessor's operating expenses or fluctuations in the consumer price index in the relevant geographical area.

During 2000, we purchased an administrative office building in Manhattan Beach, California with approximately 63,000 square feet of office space. The purchase price was \$14.5 million and the acquisition was financed, in part, with a bank loan of \$10,850,000. We also purchased an approximately 264,000 square foot distribution facility located in Ontario, California. The purchase price was \$11,450,000, and the acquisition was financed, in part, with a bank loan of \$7,850,000.

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In February 2001, we completed the purchase of three adjacent properties located in Manhattan Beach, California for a total of \$4,500,000. We financed the purchase of the properties through internally generated funds and currently available short-term borrowings. We intend to build additional administrative offices on these properties.

ITEM 3. LEGAL PROCEEDINGS

On June 14, 1999, a complaint captioned R. GRIGGS GROUP LIMITED V. SKECHERS U.S.A., INC. was filed against Skechers in the United States District Court, Northern District of California (San Francisco Division), Case No. 99-2862. R. Griggs Group Limited manufactures and markets footwear including Dr. Martens. The complaint alleged various causes of action, including Federal, state and common law unfair competition and Federal and state dilution, with respect to certain trade dress of certain styles of footwear, and fraud and deceit regarding the plaintiff's alleged postponement of the filing of the action. The complaint was resolved in February 2000. The parties have settled the matter and a final settlement agreement has been signed. The terms are confidential but Skechers can disclose that the settlement did not require payment of any money by Skechers. The non-monetary terms will not have a material impact on the Skechers' financial position or results of operations.

On December 29, 1999, a complaint captioned SHAPIRO, ET AL., V. SKECHERS U.S.A., INC., ET AL. was filed against Skechers and two of its officers and directors in the United States District Court, Central District of California, Case No. 99-13559. The complaint is a purported class action claiming damages for alleged violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. The complaint also names as defendants the underwriters for Skechers' June 9, 1999 initial public offering of its Class A Common Stock. On January 12, 2000, a complaint captioned Abraham, et al., v. Skechers U.S.A., Inc., et al. was filed against Skechers and two of its officers and directors in

the United States District Court, Central District of California, Court Case No. 00-00471. The complaint is a purported class action claiming damages for alleged violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. On January 24, 2000, a complaint captioned *Astrolio, et al., v. Skechers U.S.A., Inc., et al.* was filed against Skechers and two of its officers and directors in the United States District Court, Central District of California, Case No. 00-00772. The complaint is a purported class action claiming damages for alleged violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. The complaint also names the underwriters for Skechers' initial public offering of its Class A Common Stock as defendants in the case. On January 19, 2000, a complaint captioned *Pugliesi, et al., v. Skechers U.S.A., Inc., et al.* was filed against Skechers and two of its officers and directors in the United States District Court, Central District of California, Case No. 00-00631. The complaint is a purported class action claiming damages for alleged violations of the Securities Act of 1933 and the Securities Exchange Act of 1934.

All four securities actions were subsequently consolidated into one matter and a consolidated complaint was filed on June 1, 2000. The consolidated complaint named as defendants Skechers, two officers of Skechers, and the underwriters of Skechers' initial public offering of its Class A Common Stock on June 9, 1999. The class alleged in the consolidated complaint, consists of all persons who purchased securities in, or traceable to, Skechers' initial public offering of its Class A Common Stock on June 9, 1999 or thereafter on the open market prior to June 15, 1999.

In response to the consolidated complaint, Skechers filed a motion to dismiss the entire case. On September 25, 2000, a tentative order was issued to dismiss the consolidated complaint in its entirety, with leave to amend. As of December 31, 2000, a final order has not issued. Thus, as these matters are still in the pleading stage and no discovery has been conducted, neither Skechers nor Skechers' counsel are able to conclude as to the potential likelihood of an unfavorable outcome. In any event, Skechers is vigorously defending the claims and believes that our defenses are meritorious. Skechers also maintains insurance that we believe covers all the matters alleged in the consolidated complaint as currently pled. Accordingly, Skechers has not provided for any potential losses associated with these lawsuits.

On September 29, 2000, a complaint captioned *MADISON TRADING LIMITED CORPORATION AND MERCURY INTERNATIONAL TRADING CORPORATION V. SKECHERS USA, INC., LOVITT FILMS, INC. AND BERT LOVITT* was filed against Skechers in the United States District Court in Massachusetts, Civil Case No. CV-12016JLT. The lawsuit alleges quantum meruit, intentional interference with contract, intentional interference with advantageous relationship, unfair practices and declaratory relief arising out of a business arrangement between Skechers and inventor Bert Lovitt. The complaint seeks an injunction preventing Skechers from using certain technology, compensatory damages, exemplary damages and treble damages. The court denied the plaintiffs' motion for a preliminary injunction. While it is too early to predict what the outcome of such suit will be, Skechers denies liability and will defend itself vigorously. Nonetheless, there is no basis to believe that an adverse result would have a material impact on operations or financial results. Accordingly, Skechers has not provided for any potential losses associated with this lawsuit.

We occasionally become involved in litigation arising from the normal course of business. Other than the foregoing, we believe that any liability with respect to pending legal actions, individually or in the aggregate, will not have a material adverse effect on our business, financial condition and results of operations.

No matters were submitted to our security holders to be voted on during the fourth quarter of 2000.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Skechers' Class A Common Stock began trading on the New York Stock Exchange on June 9, 1999 after Skechers completed an initial public offering of 7,000,000 shares of Class A Common Stock at \$11.00 per share. Skechers' Class A Common Stock trades under the symbol "SKX". The following table sets forth, for the periods indicated, the high and low sales prices of the Class A Common Stock.

	HIGH	LOW
	-----	-----
YEAR ENDED DECEMBER 31, 2000		
First Quarter.....	\$ 7.69	\$3.25
Second Quarter.....	16.31	7.50
Third Quarter.....	19.94	12.50
Fourth Quarter.....	16.75	11.44
YEAR ENDED DECEMBER 31, 1999		
Second Quarter(1).....	\$11.81	\$9.75
Third Quarter.....	10.25	4.75
Fourth Quarter.....	5.19	3.44

(1) For the period from June 9, 1999 to June 30, 1999.

As of March 26, 2001, there were 63 holders of record of Class A Common Stock (including holders who are nominees for an undetermined number of beneficial owners) and 9 holders of record of Skechers' 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.

In May 1992, Skechers elected to be treated for Federal and state income tax purposes as an S Corporation under Subchapter S of the Internal Revenue Code of 1986, as amended (the "Code"), and comparable state laws. As a result, earnings of Skechers, since such initial election, were included in the taxable income of Skechers' stockholders for Federal and state income tax purposes, and Skechers was not subject to income tax on such earnings, other than franchise and net worth taxes. Prior to the closing of Skechers' initial public offering of its Class A Common Stock on June 9, 1999, Skechers terminated its S Corporation status, and since then Skechers has been treated for Federal and state income tax purposes as a corporation under Subchapter C of the Code and, as a result, had become subject to state and Federal income taxes. By reason of Skechers' treatment as an S Corporation for Federal and state income tax purposes, Skechers, since inception, had provided to its stockholders funds for the payment of income taxes on the earnings of Skechers. Skechers declared distributions relating to its S Corporation status of \$7.9 million in 1998 and \$35.4 million in 1999 ("S Corporation Distributions"), \$21.0 million of which was paid from a portion of the net proceeds of Skechers' initial public offering of its Class A Common Stock.

In connection with Skechers' initial public offering of its Class A Common

Stock and the termination of Skechers' S Corporation tax status, Skechers entered into a tax indemnification agreement with each of its stockholders. The agreement provides that Skechers will indemnify and hold harmless each of the stockholders for Federal, state, local or foreign income tax liabilities, and costs relating thereto, resulting from any adjustment to Skechers' taxable income that is the result of an increase in or change in character of, Skechers' income during the period it was treated as an S Corporation up to Skechers' tax savings in connection with such adjustments. The agreement also provides that if there is a determination that Skechers was not an S Corporation prior to the initial public offering of its Class A Common Stock on June 9, 1999, stockholders will indemnify Skechers for the additional tax liability arising as a result of such determination. The stockholders will also indemnify Skechers for any increase in Skechers' tax liability to the extent such increase results in a related decrease in the stockholders' tax liability.

Purchasers of shares in the initial public offering of its Class A Common Stock on June 9, 1999 did not receive any portion of the S Corporation Distributions. Skechers has never declared or paid dividends on its Class A Common Stock. Skechers currently intends to retain any earnings for use in its business and does not anticipate paying any cash dividends in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected consolidated financial data of Skechers as of and for each of the years in the five-year period ended December 31, 2000.

SUMMARY FINANCIAL DATA
(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

	YEARS ENDED DECEMBER 31,				
	1996	1997	1998	1999	2000
STATEMENT OF OPERATION DATA:					
Net sales	\$115,410	\$183,827	\$372,680	\$424,601	\$675,036
Gross profit	34,211	68,723	154,580	174,608	284,225
Operating expenses:					
Selling	11,739	21,584	49,983	57,332	77,451
General and administrative	18,939	32,397	71,461	79,114	125,827
Earnings from operations	5,125	15,636	33,991	38,830	81,263
Interest expense	3,231	4,186	8,631	6,554	9,230
Earnings before income taxes	1,955	11,413	25,121	32,691	72,351
Net earnings	1,910	11,023	24,471	24,056	43,751
PRO FORMA OPERATIONS DATA:(1)					
Earnings before income taxes	\$ 1,955	\$ 11,413	\$ 25,121	\$ 32,691	\$ 72,351
Income taxes	782	4,565	10,048	12,880	28,600
Net earnings	1,173	6,848	15,073	19,811	43,751
Net earnings per share:(2)					
Basic	\$ 0.04	\$ 0.25	\$ 0.54	\$ 0.62	\$ 1.24
Diluted	\$ 0.04	\$ 0.23	\$ 0.49	\$ 0.60	\$ 1.20
Weighted average shares:(2)					
Basic	27,814	27,814	27,814	31,765	35,142
Diluted	29,614	29,614	30,610	33,018	36,563

AS OF DECEMBER 31,

BALANCE SHEET DATA:	1996	1997	1998	1999	2000
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Working capital	\$ 11,987	\$ 17,081	\$ 23,106	\$ 65,003	\$ 93,305
Total assets	42,151	90,881	146,284	177,914	303,400
Total debt	25,661	39,062	70,933	33,950	85,321
Stockholders' equity	3,336	11,125	27,676	86,000	134,046

- (1) Reflects adjustments for Federal and state income taxes for 1996 through 1999 assuming Skechers had been taxed as a C Corporation rather than as an S Corporation for the full year.
- (2) Basic earnings per share represents net earnings divided by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if options to issue common stock were exercised or converted into common stock. The weighted average diluted shares outstanding gives effect to the sale by Skechers of those shares of common stock necessary to fund the payment of (i) stockholder distributions paid or declared from January 1, 1998 to June 7, 1999, the S Corporation termination date, in excess of (ii) the S Corporation earnings from January 1, 1998 to December 31, 1998 for both 1997 and 1998, and January 1, 1999 to June 7, 1999 for 1999, based on an initial public offering price of \$11 per share, net of underwriting discounts.

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

Certain information contained in the following Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements within the meaning of the Securities Act and the Securities Exchange Act, which can be identified by the use of forward-looking terminology such as "believes," "anticipates," "plans," "expects," "endeavors," "may," "will," "intends," "estimates" and similar expressions that are intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties, and our actual results may differ materially from the results discussed in the forward-looking statements as a result of certain factors set forth in "Risk Factors" and elsewhere in this report.

OVERVIEW

Skechers has realized rapid growth since inception, increasing net sales at a compound annual growth rate of 39.7% from \$90.8 million in 1994 to \$675.0 million in 2000. This momentum continued into 2000 with a 59.0% increase in sales and a 109.3% increase in earnings from operations, as compared to 1999. During 1998 and 1999, our gross margins as a percentage of net sales remained relatively constant at 41.5% and 41.1%, respectively, and during 2000, gross margins improved to 42.1% of net sales. Operating

margin as a percentage of net sales also increased from 9.1% in each of 1998 and 1999 to 12.0% in 2000. In the future, our rate of growth will be dependent upon, among other things, the continued success of our efforts to expand our footwear offerings within the Skechers brand or developing alternative, successful brands. We cannot assure you that the rate of growth will not decline in future periods or that we will improve or maintain operating margins.

As our sales growth has accelerated, we have focused on investing in our infrastructure to support continued expansion in a disciplined manner. Major areas of investment have included expanding our distribution and administrative facilities, hiring additional personnel, developing product sourcing and quality control offices in China and Taiwan, upgrading our management information systems, developing and expanding our retail stores and expanding the offerings available through our web site and direct mail catalog. We have established this infrastructure to achieve further economies of scale in anticipation of

continued increases in sales. Because expenses relating to this infrastructure are fixed, at least in the short-term, operating results and margins would be adversely affected if we do not achieve anticipated continued growth.

We have implemented a strategy of controlling the growth of the distribution channels through which our products are sold in order to protect the Skechers brand name, properly service customer accounts and better manage the growth of the business. Increasing sales depend on various factors, including strength of our brand name, competitive conditions, and our ability to manage the increased sales and stores. We cannot assure you that our growth strategy will be successful or that our sales or earnings will increase as a result of the implementation of such efforts.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO THE YEAR ENDED DECEMBER 31, 1999

Net Sales

Net sales for 2000 were \$675.0 million, an increase of \$250.4 million or 59.0% over 1999 net sales of \$424.6 million. The substantial increase in net sales continues to be driven by increases in our wholesale revenues, which increased 59.0% over last year. In addition, we realized a 51.5% increase in wholesale units sold, to 29.4 million units in 2000 from 19.4 million units in 1999. The increase in the wholesale business is primarily due to expansion of the domestic sales force, continued consumer acceptance of the company's product offerings, and increased marketing campaigns. During 2000, we continued to introduce, and generate sales from, new product categories in the women's, men's, children's athletic shoes, and our men's quality dress line. Retail sales for 2000 also increased over 1999 due to increased sales at those stores opened at least one year and from the addition of 10 new locations added during 2000. Mail order sales in 2000 also increased over 1999 due to an increase in the number of mailings and an increase in the circulation of the mailings. Fiscal year 2000 international sales increased over last year primarily due to increased brand acceptance and increased advertising campaigns.

During 2000, we continued to increase our focus on international sales, through such measures as the establishment of an international infrastructure, creation of an international subsidiary (Skechers USA, Ltd.), selling direct to department stores and specialty retailers, the opening of concept stores in London and Germany, and the signing of a lease for a concept store in France, scheduled to open during May 2001. In addition, we have signed celebrity endorsements that will be used in various international marketing campaigns through the middle of 2002.

Gross Profit

In 2000, gross profit increased to \$284.2 million, a 62.8% increase over gross profit of \$174.6 million in 1999. Gross profit as a percentage of net sales was 42.1% in 2000, in comparison to 41.1% in 1999. The increase in gross profit as a percentage of net sales is due to (i) an increase in the proportion of sales derived from the women's footwear line, which have a higher gross margin as a percentage of net sales than the men's footwear line (ii) fewer markdowns as a percentage of sales and (iii) increased sales at retail which provide a higher gross margin as a percentage of net sales than wholesale gross margins.

Selling Expenses

Selling expenses were \$77.5 million in 2000, an increase of 35.1% over selling expenses of \$57.3 million in 1999. However, selling expense as a percentage of net sales decreased to 11.5% in 2000 from 13.5% in 1999. The increase in absolute dollars was primarily due to increased print advertising, both internationally and domestically, increased promotional expenses, and additional sales commissions due to increased sales volume.

We are committed to the overall marketing strategy that is largely responsible for the increase in the market presence, product visibility and product demand over the past three years. We have increased our advertising budget consistent with projected sales, which has included such avenues as

magazines, television, trade shows, billboards, and buses. We endeavor to spend approximately

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8% to 10% of annual net sales in the marketing of Skechers footwear through advertising, promotions, public relations, trade shows and other marketing efforts.

General and Administrative Expenses

General and administrative expenses in 2000 were \$125.8 million compared to \$79.1 million in 1999. As a percent of sales, general and administrative expenses remained the same at 18.6% in both 2000 and 1999. The increase in general and administrative expenses are primarily due to additional salary, wages, temporary help costs, and warehousing and distribution costs associated with increased sales volume. In addition, we realized increased operating costs from the ten new retail facilities added during 2000, and, although to a lesser extent, we incurred additional general and administrative expenses related to infrastructure additions to support our international operations.

We expect general and administrative expenses to increase in absolute dollars, however, to remain the same or decrease as a percent of net sales. The increase in expenditures will be the result of our continued efforts to increase our market share, through the opening of additional retail stores, both domestically and internationally, expanding our direct selling efforts internationally, and creating the necessary infrastructure to support the ongoing operations.

Interest Expense

Interest expense increased to \$9.2 million in 2000 from \$6.6 million in 1999. The increase was due to increased financing costs associated with additional borrowings to support our working capital requirements, capital additions made during the year, increased purchases of inventory and the build up of accounts receivable commensurate with our growth.

Other, Net

Other, net consists primarily of a gain from the settlement of commercial lawsuits and net gain from foreign exchange rate fluctuations.

Income Taxes

The 2000 effective tax rate was 39.5%, which is comparable to the pro forma effective rate of 39.4% in 1999. The prior years pro forma taxes represent those taxes that would have been reported had we been subject to federal and state income taxes as a C corporation for the full year. We continually review and evaluate various tax strategies to minimize our tax liability.

We are expanding our international operations and plan to reinvest any undistributed earnings from our non-U.S. subsidiaries, thereby indefinitely postponing their remittance. As a result, we do not plan to provide for deferred income taxes on any accumulated undistributed earnings that our non-U.S. subsidiaries earn in the future. Assuming that our international operations are successful, our effective tax rates should decrease accordingly.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO THE YEAR ENDED DECEMBER 31, 1998

Net Sales

Net sales increased by \$51.9 million to \$424.6 million, an increase of 13.9% over 1998 sales of \$372.7 million. Continued growth in the sales of branded

footwear is primarily the result of (i) greater brand awareness driven in part by a continued expansion of our national marketing efforts, (ii) a broader breadth of men's, women's and children's product offerings, (iii) the development of our domestic and international sales forces and (iv) the transition of our account base in the direction of larger accounts with multiple stores and increased sales to such accounts, resulting in higher sales per account.

During 1999, we were able to successfully target additional styles and categories in the moderately-priced footwear market. Wholesale units sold increased 20.5% from 16.1 million units in 1998 to 19.4 million units in 1999. We were able to accomplish this and still maintain our gross margin, as a percentage of net sales, at a level comparable to that achieved in 1998 by carefully targeting production and inventory levels with the level of orders from customers. In addition, we were able to better match styles with seasonal trends during 1999.

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Gross Profit

Our gross profit increased \$20.0 million, or 13.0%, to \$174.6 million in 1999 compared to \$154.6 million in 1998. Gross margins as a percentage of net sales decreased slightly in 1999 to 41.1% compared to 41.5% in 1998. The slight decrease in gross margin, as a percentage of net sales, in 1999 compared to 1998, was due to slightly higher ocean freight costs by third party shipping companies on imported products.

Selling Expenses

Selling expenses increased \$7.3 million, or 14.7%, to \$57.3 million in 1999 compared to \$50.0 million in 1998. As a percentage of net sales, selling expenses remained relatively constant in 1999 at 13.5% compared to 13.4% in 1998. The increase in selling expenses was primarily due to increased advertising expenses and additional compensation resulting from increased sales volume. Advertising expenses as a percentage of sales for 1999 and 1998 was 11.2% and 11.3%, respectively.

General and Administrative Expenses

General and administrative expenses increased \$7.7 million to \$79.1 million in 1999, compared to \$71.5 million in 1998. As a percentage of sales, general and administrative expenses decreased to 18.6% in 1999 from 19.2% in 1998. The increase in general and administrative expenses was due to (i) the hiring of additional personnel, (ii) increased distribution related costs to support the increase in sales volume, (iii) and additional rent and other operating expenses related to the addition of 10 new stores added in 1999.

Interest Expense

Interest expense decreased to \$6.6 million in 1999 from \$8.6 million in 1998 as a result of a reduction in borrowings under the Company's revolving line of credit and the repayment of the \$10.0 million note payable to a stockholder.

Pro Forma Income Taxes

Pro forma income taxes represent taxes, which would have been reported assuming the Company been subject to federal and state taxes as a C Corporation.

LIQUIDITY AND CAPITAL RESOURCES

Our capital needs are derived primarily from working capital requirements and the continued growth of the business. Our working capital at December 31, 2000 was \$93.3 million, an increase of \$28.3 million over working capital of \$65.0 million at December 31, 1999. The increase in working capital was primarily due to the increase in accounts receivable and inventories, partially offset by

increases in short term borrowings and accounts payable.

Net cash used in operating activities for the current year was \$1.0 million compared to cash provided by operating activities of \$13.1 million last year. The decrease in cash provided by operating activities was due to the significant increases in receivables and inventories, offset by increases in accounts payable and increased depreciation, to support the increase in sales volume.

Net cash used in investing activities was \$21.8 million, an increase of \$11.0 million over last year. The increase in investing activities reflects the non-financed portion of capital expenditures related to the material handling and sortation equipment for our distribution facility, and the acquisition of an administrative building and distribution facility. Current year capital expenditures also includes the construction and investment in 10 new retail facilities opened during 2000.

During 2000, we financed a significant portion of our acquisition of a distribution facility located in Ontario, California and the acquisition of an administrative office building in Manhattan Beach, California. The financing provides for monthly payments of principal and interest and a balloon payment due in 10 years.

Net cash provided by financing activities totaled \$20.8 million in 2000 compared to cash used in financing activities of \$2.4 million in 1999. The cash provided by financing activities was derived primarily from our short-term credit facilities, and, to a lesser extent, proceeds from the exercise of stock options.

Our credit facility provides for borrowing under a revolving line of credit of up to \$120.0 million and a term loan, with actual borrowings limited to available collateral and certain limitations on total indebtedness (approximately \$62.1 million of availability as of December 31, 2000) with the CIT Group, as agents for the lenders. At December 31, 2000, there was approximately \$49.8 million outstanding under the revolving line of credit. The revolving line of credit bears interest at prime rate (9.5% at December 31, 2000)

minus .5%. Interest on the line of credit is payable monthly in arrears. The revolving line of credit expires on December 31, 2002. The revolving line of credit provides a sub-limit for letters of credit of up to \$36.0 million to finance our foreign purchases of merchandise inventory. As of December 31, 2000, we had approximately \$8.6 million of letters of credit under the revolving line of credit. The term loan component of the credit facility, which has a principal balance of \$2.1 million as of December 31, 2000, bears interest at the prime rate plus 1.0% and is due in monthly installments with a final balloon payment December 2002. The proceeds from this note were used to purchase equipment for one of our distribution centers in Ontario, California and the note is secured by such equipment. The credit facility contains certain financial covenants that require us to maintain minimum tangible net worth, working capital, and specified leverage ratios and limits our ability to pay dividends if we are in default of any provisions of the credit facility. We were in compliance with these covenants as of December 31, 2000.

At December 31, 1998, we had an unsubordinated note payable to the Greenberg Family Trust in the amount of \$10.0 million. We recorded interest expense of approximately \$433,000 and \$540,000 related to notes payable to the Greenberg Family Trust during the years ended December 31, 1999 and 1998, respectively. This note was repaid during 1999, with the proceeds, in part, from Skechers' initial public offering of its Class A Common Stock.

By reason of our treatment as an S Corporation for Federal and state income tax purposes, we have since inception provided to our stockholders funds for the

payment of income taxes on our earnings as well as the conversion from an S Corporation to a C Corporation during 1999. We declared S Corporation Distributions of \$35.4 million (\$21.0 million of which was paid from a portion of the net proceeds of Skechers' initial public offering of its Class A Common Stock) and \$7.9 million in 1999 and 1998, respectively. Since the termination of our S Corporation status, earnings have been and will be retained for the foreseeable future in the operations of the business.

We believe that anticipated cash flows from operations, available borrowings under our revolving line of credit, cash on hand and its financing arrangements will be sufficient to provide us with the liquidity necessary to fund our anticipated working capital and capital requirements through fiscal 2001. However, in connection with our growth strategy, we will incur significant working capital requirements and capital expenditures. Our future capital requirements will depend on many factors, including, but not limited to, the levels at which we maintain inventory, the market acceptance of our footwear, the levels of promotion and advertising required to promote our footwear, the extent to which we invest in new product design and improvements to our existing product design and the number and timing of new store openings. To the extent that available funds are insufficient to fund our future activities, we may need to raise additional funds through public or private financing. We cannot assure you that additional financing will be available or that, if available, it can be obtained on terms favorable to us and our stockholders. Failure to obtain such financing could delay or prevent our planned expansion, 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.

INFLATION

Skechers does not believe that the relatively moderate rates of inflation experienced in the United States over the last three years have had a significant effect on its sales or profitability. However, Skechers 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 Skechers' products are manufactured, Skechers does not believe that inflation has had a material effect on Skechers' sales or profitability. In the past, Skechers has been able to offset its foreign product cost increases by increasing prices or changing suppliers, we cannot assure you that Skechers will be able to continue to make such increases or changes in the future.

EXCHANGE RATES

Skechers receives U.S. Dollars for substantially all of its product sales and its royalty income. Inventory purchases from offshore contract manufacturers are primarily denominated in U.S. Dollars; however, purchase prices for Skechers' 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 Skechers' cost of goods in the future. During 1999 and 2000, exchange rate fluctuations did not have a material impact on Skechers' inventory costs. Skechers does not engage in hedging activities with respect to such exchange rate risk.

ITEM 7(a) QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Skechers does not hold any derivative securities.

At December 31, 2000, 37% of the Company's total indebtedness contained fixed rates of interest ranging from 7.66% to 7.89%. Substantially all of the Company's remaining indebtedness is at variable rates of interest and, accordingly, while changes in interest rates would not impact the fair value of these financial instruments, such changes would impact net earnings in future periods.

FUTURE ACCOUNTING CHANGES

In March 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 44 ("Interpretation 44"), Accounting for Certain Transactions Involving Stock Compensation. Interpretation 44 provides criteria for the recognition of compensation expense in certain stock-based compensation arrangements that are accounted for under Accounting Principles Board Opinion No. 25, Accounting for Stock-Based Compensation. Interpretation 44 is effective July 1, 2000, with certain provisions that are effective retroactively to December 15, 1998 and January 12, 2000. Interpretation 44 did not have a material impact on our financial statements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS No. 133"), as amended by SFAS No. 137. SFAS No. 133 modifies the accounting for derivative and hedging activities and is effective for fiscal years beginning after June 15, 2000. Since Skechers does not presently hold any derivatives or engage in hedging activities, accordingly SFAS No. 133 should not impact Skechers' financial position or results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 is incorporated by reference to our Consolidated Financial Statements and Independent Auditors' Report beginning at page F-1 of this Form 10-K.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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 2000 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 2000 fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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 2000 fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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 2000 fiscal year.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

- (a) Consolidated financial statements and schedules required to be filed hereunder are indexed on Page F-1 hereof.
- (b) Reports on Form 8-K -- There were no reports on Form 8-K filed during the last quarter of the fiscal year ended December 31, 2000.
- (c) Exhibits

EXHIBIT NUMBER -----	DESCRIPTION OF EXHIBIT -----
2.1	Agreement of Reorganization and Plan of Merger (incorporated by reference to exhibit number 3.2(a) 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).
3.1	Certificate of Incorporation (incorporated by reference to exhibit number 3.1 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on July 29, 1998).
3.2	Bylaws (incorporated by reference to exhibit number 3.2 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on July 29, 1998).
3.2(a)	Amendment to Bylaws (incorporated by reference to exhibit number 3.2(a) 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).
4.1	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).
10.1	Amended and Restated 1998 Stock Option, Deferred Stock and Restricted Stock Plan (incorporated by reference to exhibit number 10.1 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on July 29, 1998).
10.2	Amended and restated 1998 Employee Stock Purchase Plan (incorporated by reference to exhibit number 10.1 of the Registrant's Form 10-Q, for the period ending June 30, 2000)
10.3	Employment Agreement dated June 14, 1999, between the Registrant and Robert Greenberg (incorporated by reference to exhibit number 10.3 of the Registrant's Form 10-Q for the period ending June 30, 1999).
10.3(a)	Amendment No. 1 to Employment Agreement between the Registrant and Robert Greenberg dated December 31, 1999 (incorporated by reference to exhibit number 10.3(a) of the Registrant's Form

10-K for the year ending December 31, 1999).

- 10.4 Employment Agreement dated June 14, 1999, between the Registrant and Michael Greenberg (incorporated by reference to exhibit number 10.4 of the Registrant's Form 10-Q for the period ending June 30, 1999).
- 10.4(a) Amendment to Employment Agreement between the Registrant and Michael Greenberg dated December 31, 2000 (incorporated by reference to exhibit number 10.4(a) of the Registrant's Form 10-K for the year ending December 31, 1999).
- 10.5 Employment Agreement dated June 14, 1999, between the Registrant and David Weinberg (incorporated by reference to exhibit number 10.5 of the Registrant's Form 10-Q for the period ending June 30, 1999).
- 10.5(a) Amendment No. 1 to Employment Agreement between the Registrant and David Weinberg dated December 31, 2000 (incorporated by reference to exhibit number 10.5(a) of the Registrant's Form 10-K for the year ending December 31, 1999).
- 10.6 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 ending December 31, 1999).
- 10.6(a) 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 ending December 31, 1999).
- 10.7 Registration Rights Agreement dated June 9, 1999, between the Registrant, the Greenberg Family Trust, and

EXHIBIT NUMBER -----	DESCRIPTION OF EXHIBIT -----
	Michael Greenberg (incorporated by reference to exhibit number 10.7 of the Registrant's Form 10-Q for the period ending June 30, 1999).
10.8	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 period ending June 30, 1999).
10.9	Lease Agreement, dated July 1, 1999, between the Registrant and Richard and Donna Piazza, regarding 1108-B Manhattan Avenue, Manhattan Beach, California (incorporated by reference to exhibit number 10.22 of the registrant's Form 10-K for the year ending December 31, 1999)
10.10	Amended and Restated Loan and Security Agreement between the Registrant and Heller Financial, Inc., dated September 4, 1998 (incorporated by reference to exhibit number 10.10 of the

Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on April 9, 1999).

- 10.10(a) Term Loan A Note, dated September 4, 1998, between the Registrant and Heller Financial, Inc. (incorporated by reference to exhibit number 10.10(a) of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on April 9, 1999).
- 10.10(b) Revolving Note dated September 4, 1998, between the Registrant and Heller Financial, Inc. (incorporated by reference to exhibit number 10.10(b) of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on April 9, 1999).
- 10.10(c) First Amendment to Amended and Restated Loan and Security Agreement, dated September 11, 1998 (incorporated by reference to exhibit number 10.10(c) of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on April 9, 1999).
- 10.10(d) Second Amendment to Amended and Restated Loan and Security Agreement, dated December 23, 1998 (incorporated by reference to exhibit number 10.10(d) of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on April 9, 1999).
- 10.10(e) Third Amendment to Amended and Restated Loan and Security Agreement dated February 1, 2000.
- 10.10(f) Fourth Amendment to Amended and Restated Loan and Security Agreement dated June 1, 2000.
- 10.11 Lease Agreement, dated April 15, 1998, between the Registrant and Holt/Hawthorn and Victory Partners, regarding 228 Manhattan Beach Boulevard, Manhattan Beach, California (incorporated by reference to exhibit number 10.11 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on April 9, 1999).
- 10.12 Commercial Lease Agreement, dated February 19, 1997, between the Registrant and Richard and Donna Piazza, regarding 1110 Manhattan Avenue, Manhattan Beach, California (incorporated by reference to exhibit number 10.12 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on July 29, 1998).
- 10.13 Lease Agreement, dated June 12, 1998, between the Registrant and Richard and Donna Piazza, regarding 1112 Manhattan Avenue, Manhattan Beach, California (incorporated by reference to exhibit number 10.13 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on July 29, 1998).
- 10.14 Lease Agreement, dated November 21, 1997, between the Registrant and The Prudential Insurance Company of America, regarding 1661 So. Vintage Avenue, Ontario, California (incorporated by reference to exhibit number 10.14 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on July 29, 1998).
- 10.15 Lease Agreements, dated November 21, 1997, between the Registrant and The Prudential Insurance Company of America,

regarding 1777 So. Vintage Avenue, Ontario, California (incorporated by reference to exhibit number 10.15 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on July 29, 1998).

- 10.16 Commercial Lease Agreement, dated April 10, 1998, between the Registrant and Proficiency Ontario Partnership, regarding 5725 East Jurupa Street (incorporated by reference to exhibit number 10.16 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on July 29, 1998).
- 10.17 Lease Agreement and Addendum, dated June 11, 1998, between the Registrant and Delores McNabb, regarding Suite 3 on the first floor of the north building, Suite 9 on the first floor of the south building at 904 Manhattan Avenue, Manhattan Beach, California (incorporated by reference to exhibit number 10.17 of the Registrant's

EXHIBIT NUMBER -----	DESCRIPTION OF EXHIBIT -----
	Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on April 9, 1999).
10.18	Addendum to Lease Agreement, dated September 14, 1998, between the Registrant and Delores McNabb, regarding Suites 3, 4 and 5 on the second floor of the north building at 904 Manhattan Avenue, Manhattan Beach California (incorporated by reference to exhibit number 10.18 of the Registrant's Registration Statement on Form S-1, as amended (File No. 333-60065), filed with the Securities and Exchange Commission on April 9, 1999).
10.19	Standard Offer, Agreement and Escrow Instructions, Addendum and Additional Provisions, dated October 12, 2000, between the Registrant and/or its assignees and Champagne Building Group L.P., for the purchase of property located at 1670 South Champagne Avenue, Ontario, California.
10.20	Lease Agreement, dated November 15, 1999, between the Registrant and Champagne Building Group L.P., regarding 1670 South Champagne Avenue, Ontario, California (incorporated by reference to exhibit 10.20 of the Registrant's Form 10-K for the year ending December 31, 1999).
10.21	Amendment of Lease Agreement dated December 20, 2000, between the Registrant and Yale Investments, LLC (a wholly owned subsidiary of the Registrant), regarding 1670 South Champagne Avenue, Ontario, California.
10.22	Purchase and Sale Agreement with Escrow Instructions, dated November 13, 2000, between the Registrant and Pacifica California/Apollo, LLC, for the purchase of property located at 225 South Sepulveda Boulevard, Manhattan Beach, California.

- 10.22(a) First Amendment to Purchase and Sale Agreement, dated November 29, 2000, between the Registrant and Pacifica California/Apollo, LLC, for the purchase of property located at 225 South Sepulveda Boulevard, Manhattan Beach, California.
- 10.23 Promissory Note, dated December 27, 2000, between the Registrant and Washington Mutual Bank, FA, for the purchase of property located at 225 South Sepulveda Boulevard, Manhattan Beach, California.
- 10.24 Assignment and Assumption Agreement, dated December 27, 2000, between the Registrant and Pacifica California/Apollo, LLC, regarding 225 South Sepulveda Boulevard, Manhattan Beach, California.
- 10.25 Loan Agreement, dated December 21, 2000, between Yale Investments, LLC, and MONY Life Insurance Company, for the purchase of property located at 1670 South Champagne Avenue, Ontario, California.
- 10.26 Promissory Note, dated December 21, 2000, between Yale Investments, LLC, and MONY Life Insurance Company, for the purchase of property located at 1670 Champagne Avenue, Ontario, California.
- 21.1 Subsidiaries of the Registrant
- 23.1 Consent of KPMG LLP
- 24.1 Power of Attorney (included on signature page)

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 29th day of March, 2001.

SKECHERS U.S.A, INC.

By: /s/ ROBERT GREENBERG

Robert Greenberg
 Chairman of the Board
 and Chief Executive Officer

POWER OF ATTORNEY

We, the undersigned officers and directors of Skechers U.S.A., Inc., do hereby constitute and appoint Robert Greenberg, Michael Greenberg and David Weinberg, or either of them, our true and lawful attorneys and agents, to do any and all acts and things in our names in the capacities indicated below, which said attorneys and agents, or either of them, may deem necessary or advisable to enable said corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, and requirements of the Securities and Exchange Commission, in connection with this report, including specifically, but without limitation, power and authority to sign for us or any of us in our names and in the capacities indicated below, any and all amendments to this report, and we do hereby ratify and confirm all that the said attorneys and agents, or either of them, shall do or cause to be done by virtue hereof.

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.

SIGNATURE -----	TITLE -----	DATE ----
/S/ ROBERT GREENBERG ----- Robert Greenberg	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 29, 2001
/S/ MICHAEL GREENBERG ----- Michael Greenberg	President and Director	March 29, 2001
/S/ DAVID WEINBERG ----- David Weinberg	Executive Vice President, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 29, 2001
/S/ JEFFREY GREENBERG ----- Jeffrey Greenberg	Director	March 29, 2001
/S/ JOHN QUINN ----- John Quinn	Director	March 29, 2001
/S/ ROBERT SIEGEL ----- Robert Siegel	Director	March 29, 2001
/S/ RICHARD SISKIND ----- Richard Siskind	Director	March 29, 2001

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SKECHERS U.S.A., INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Skechers U.S.A., Inc.:

We have audited the accompanying consolidated financial statements of Skechers U.S.A., Inc. and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Skechers U.S.A., Inc. and subsidiaries as of December 31, 1999 and 2000 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

Los Angeles, California
February 23, 2001

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SKECHERS U.S.A., INC.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1999 AND 2000
(IN THOUSANDS)

ASSETS

	1999	2000
	-----	-----
Current assets:		
Cash	\$ 10,836	\$ 8,781
Trade accounts receivable, less allowances for bad debts and returns of \$3,237 in 1999 and \$5,152 in 2000	63,052	96,628
Due from officers and employees	851	540
Other receivables	2,771	1,016
	-----	-----
Total receivables	66,674	98,184
	-----	-----
Inventories	68,959	111,708
Prepaid expenses and other current assets	5,130	6,457
Deferred tax assets	2,810	4,414
	-----	-----
Total current assets	154,409	229,544
Property and equipment, at cost, less accumulated depreciation and amortization	21,387	70,405

Intangible assets, at cost, less applicable amortization	663	559
Other assets, at cost	1,455	2,892
	-----	-----
	\$177,914	\$303,400
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Short-term borrowings	\$ 30,382	\$ 49,754
Current installments of long-term borrowings	1,060	2,452
Accounts payable	47,696	72,865
Accrued expenses	10,268	11,168
	-----	-----
Total current liabilities	89,406	136,239
	-----	-----
Long-term borrowings, excluding current installments	2,508	33,115
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.001 par value. Authorized 10,000 shares; none issued and outstanding	--	--
Class A Common stock, \$.001 par value. Authorized 100,000 shares; issued and outstanding 7,091 and 10,789 shares at December 31, 1999 and 2000, respectively	7	10
Class B Common stock, \$.001 par value. Authorized 60,000 shares; issued and outstanding 27,814 and 24,805 shares at December 31, 1999 and 2000, respectively	28	25
Additional paid-in capital	69,948	74,243
Retained earnings	16,017	59,768
	-----	-----
Total stockholders' equity	86,000	134,046
	-----	-----
	\$177,914	\$303,400
	=====	=====

See accompanying notes to consolidated financial statements.

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SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENTS OF EARNINGS
THREE-YEAR PERIOD ENDED DECEMBER 31, 2000
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	1998	1999	2000
	-----	-----	-----
Net sales	\$ 372,680	\$ 424,601	\$ 675,036
Cost of sales	218,100	249,993	390,811
	-----	-----	-----
Gross profit	154,580	174,608	284,225
Royalty income, net	855	668	316
	-----	-----	-----
	155,435	175,276	284,541
	-----	-----	-----
Operating expenses:			
Selling	49,983	57,332	77,451
General and administrative	71,461	79,114	125,827
	-----	-----	-----
	121,444	136,446	203,278
	-----	-----	-----
Earnings from operations	33,991	38,830	81,263
	-----	-----	-----
Other income (expense):			
Interest	(8,631)	(6,554)	(9,230)
Other, net	(239)	415	318
	-----	-----	-----
	(8,870)	(6,139)	(8,912)
	-----	-----	-----
Earnings before income taxes	25,121	32,691	72,351

Income taxes	650	8,635	28,600
Net earnings	\$ 24,471	\$ 24,056	\$ 43,751
Net earnings per share:			
Basic			\$ 1.24
Diluted			\$ 1.20
Weighted-average shares:			
Basic			35,142
Diluted			36,563
Pro forma operations data:			
Earnings before income taxes	\$ 25,121	\$ 32,691	
Income taxes	10,048	12,880	
Net earnings	\$ 15,073	\$ 19,811	
Net earnings per share:			
Basic	\$ 0.54	\$ 0.62	
Diluted	\$ 0.49	\$ 0.60	
Weighted-average shares:			
Basic	27,814	31,765	
Diluted	30,610	33,018	

See accompanying notes to consolidated financial statements.

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SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
THREE-YEAR PERIOD ENDED DECEMBER 31, 2000
(IN THOUSANDS)

	COMMON STOCK				ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
	SHARES		AMOUNT				
	CLASS A	CLASS B	CLASS A	CLASS B			
Balance at December 31, 1997	--	27,814	--	\$ 2	--	\$ 11,123	\$ 11,125
Net earnings	--	--	--	--	--	24,471	24,471
S Corporation distribution	--	--	--	--	--	(7,920)	(7,920)
Balance at December 31, 1998	--	27,814	--	2	--	27,674	27,676
Net earnings	--	--	--	--	--	24,056	24,056
Proceeds from issuance of common stock in connection with initial public offering	7,000	--	\$ 7	26	\$ 69,687	--	69,720
Proceeds from issuance of common stock under the employee stock purchase plan	91	--	--	--	261	--	261
S Corporation distribution:							
Cash	--	--	--	--	--	(35,363)	(35,363)
Cross Colours trademark	--	--	--	--	--	(350)	(350)
Balance at December 31, 1999	7,091	27,814	7	28	69,948	16,017	86,000
Net earnings	--	--	--	--	--	43,751	43,751
Proceeds from issuance of common stock under the employee stock purchase plan	267	--	--	--	1,073	--	1,073
Proceeds from issuance of common stock under the employee stock option plan ..	422	--	--	--	1,499	--	1,499
Tax effect of non-qualified stock options	--	--	--	--	1,636	--	1,636
Deferred compensation	--	--	--	--	87	--	87
Conversion of Class B common stock into Class A common stock	3,009	(3,009)	3	(3)	--	--	--
Balance at December 31, 2000	10,789	24,805	\$ 10	\$ 25	\$ 74,243	\$ 59,768	\$ 134,046

See accompanying notes to consolidated financial statements.

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SKECHERS U.S.A., INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE-YEAR PERIOD ENDED DECEMBER 31, 2000
(IN THOUSANDS)

	1998	1999	2000
	-----	-----	-----
Cash flows from operating activities:			
Net earnings	\$ 24,471	\$ 24,056	\$ 43,751
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization of property and equipment	2,843	3,752	5,894
Amortization of intangible assets	148	108	104
Provision (recovery) for bad debts and returns	1,423	(176)	1,915
Tax effect of non-qualified stock options	--	--	1,636
Deferred compensation	--	--	87
Loss on disposal of equipment	--	903	78
Gain (loss) on distribution of intangibles	190	(118)	--
Increase in assets:			
Receivables	(17,760)	(17,282)	(33,426)
Inventories	(19,558)	(3,569)	(42,749)
Prepaid expenses and other current assets	(1,877)	(2,514)	(1,327)
Deferred tax assets	--	(2,810)	(1,604)
Other assets	(512)	466	(1,437)
Increase (decrease) in liabilities:			
Accounts payable	2,132	9,551	25,169
Accrued expenses	4,249	738	900
	-----	-----	-----
Net cash provided by (used in) operating activities	(4,251)	13,105	(1,009)
	-----	-----	-----
Cash flows used in investing activities:			
Capital expenditures	(9,434)	(10,846)	(21,897)
Proceeds from the sales of fixed assets	--	--	51
Intangible assets	(14)	--	--
	-----	-----	-----
Net cash used in investing activities	(9,448)	(10,846)	(21,846)
	-----	-----	-----
Cash flows from financing activities:			
Net proceeds from initial public offering of common stock	--	69,720	--
Net proceeds from issuance of common stock	--	261	2,572
Net proceeds (payments) related to short-term borrowings	31,486	(23,697)	19,372
Proceeds from long-term debt	581	--	--
Payments on long-term debt	(562)	(1,042)	(1,144)
Payments on notes payable to stockholder	(1,006)	(12,244)	--
Distributions paid to stockholders	(7,320)	(35,363)	--
	-----	-----	-----
Net cash provided by (used in) financing activities	23,179	(2,365)	20,800
	-----	-----	-----
Net increase (decrease) in cash	9,480	(106)	(2,055)
Cash at beginning of year	1,462	10,942	10,836
	-----	-----	-----
Cash at end of year	\$ 10,942	\$ 10,836	\$ 8,781
	=====	=====	=====
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 8,067	\$ 6,782	\$ 8,386
Income taxes	1,416	10,619	27,712
	=====	=====	=====

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

During 2000, the Company acquired \$14,444 of property and equipment under capital lease arrangements. In addition, the Company acquired an office building and distribution facility and issued two notes for \$10,850 and \$ 7,850, respectively.

During 1999, the Company declared a noncash distribution of intangibles of \$350. During 1998, the Company acquired \$1,372 of property and equipment under capital lease arrangements. In connection with one of these arrangements, the Company received \$581 in cash through a sale leaseback transaction.

See accompanying notes to consolidated financial statements.

SKECHERS U.S.A., INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 2000

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) The Company

Skechers U.S.A., Inc. (the Company) designs, develops, markets and distributes footwear. The Company also operates retail stores, direct mail and e-commerce businesses.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Revenue Recognition

Revenue is recognized upon shipment of product or at point of sale for retail operations. Allowances for estimated returns and discounts are provided when the related revenue is recorded.

Revenues from royalty agreements are recognized as earned.

(c) Inventories

Inventories, principally finished goods, are stated at the lower of cost (based on the first-in, first-out method) or market. The Company provides for estimated losses from obsolete or slow-moving inventories.

(d) Income Taxes

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(e) Depreciation and Amortization

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

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

Intangible assets consist of trademarks and are amortized on a straight-line basis over ten years. The accumulated amortization as of December 31, 1999 and 2000 is \$1,196,000 and \$492,000, respectively.

(f) Long-Lived Assets

The Company reports long-lived assets, including intangibles, at amortized cost. As part of an ongoing review of the valuation and amortization of long-lived assets, management assesses the carrying value of assets if facts and circumstances suggest that such assets may be impaired. If this review indicates that the assets will not be recoverable, as determined by a nondiscounted cash flow projection over the remaining amortization period, their carrying value is reduced to estimated fair value, based on discounted cash flows.

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(g) Advertising Costs

Advertising costs are expensed in the period in which the advertisements are run. Advertising expense for the years ended December 31, 1998, 1999 and 2000 were approximately \$42,200,000, \$47,400,000 and \$59,122,000, respectively. Prepaid advertising costs at December 31, 1999 and 2000 were \$1,800,000 and \$2,605,000, respectively. Prepaid amounts outstanding at December 31, 1999 and 2000 represent advertising in trade publications, which had not run as of December 31, 1999 and 2000, respectively.

(h) 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 reflects the potential dilution that could occur if options to issue common stock were exercised or converted into common stock. The weighted average diluted shares outstanding gives effect to the sale by the Company of those shares of common stock necessary to fund the payment of (i) stockholder distributions paid or declared from January 1, 1998 to June 7, 1999, the S Corporation termination date, in excess of (ii) the S Corporation earnings from January 1, 1998 to December 31, 1998 for 1998, and January 1, 1998 to June 7, 1999 for 1999, based on an initial public offering price of \$11 per share, net of underwriting discounts.

The reconciliation of basic to diluted weighted-average shares is as follows (in thousands):

	1998	1999	2000
	-----	-----	-----
Weighted-average shares used in basic computation	27,814	31,765	35,142
Shares to fund stockholder distributions	1,800	533	--
Dilutive effect of stock options	996	720	1,421
	-----	-----	-----
Weighted-average shares used in diluted computation	30,610	33,018	36,563
	=====	=====	=====

Options to purchase 1,391,000, 1,411,000 and 1,117,920 shares of common stock at prices ranging from \$2.78 to \$19.19 were outstanding at December 31, 1998, 1999 and 2000, respectively, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

(i) Use of Estimates

Management 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 of America. Actual results could differ from those estimates.

(j) Product Design and Development Costs

The Company charges all product design and development costs to expense when incurred. Product design and development costs aggregated approximately \$2,400,000, \$2,600,000 and \$3,700,000 during the years ended December 31, 1998, 1999 and 2000, respectively.

(k) Comprehensive Income

Except for net earnings, the Company does not have any transactions and other economic events that qualify as comprehensive income.

(l) Fair Value of Financial Instruments

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

The fair value of the Company's short-term instruments reflects the fair value based upon current rates available to the Company for similar debt.

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2) PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows (in thousands):

	1999	2000
	-----	-----
Land	\$ --	\$ 7,858
Buildings and improvements	--	18,639
Furniture, fixtures and equipment	17,863	37,529
Leasehold improvements	12,392	21,029
	-----	-----
Total property and equipment	30,255	85,055
Less accumulated depreciation and amortization ...	8,868	14,650
	-----	-----
Property and equipment, net	\$21,387	\$70,405
	=====	=====

(3) SHORT-TERM BORROWINGS

The Company has available a secured line of credit, as amended in June 2000, permitting borrowings up to \$120,000,000 based upon eligible accounts receivable and inventories. The agreement expires on December 31, 2002. Borrowings bear interest at the rate of prime (9.5% at December 31, 2000) minus .50%. The agreement provides for the issuance of letters of credit up to a maximum of \$36,000,000, which decreases the amount available for borrowings under the agreement. Outstanding letters of credit at December 31, 2000 were \$8,586,000. Available borrowings under the line of credit at December 31, 2000 were approximately \$62,054,000. The Company pays an unused line of credit fee of .25% annually. The Company is required to maintain certain financial covenants including specified minimum tangible net worth, working capital and leverage ratios as well as limit the payment of dividends if it is in default of any provision of the agreement. The Company was in compliance with these covenants at December 31, 2000.

(4) NOTES PAYABLE TO STOCKHOLDER

Stockholder loans were repaid during 1999. The Company recorded interest expense of approximately \$540,000 and \$433,000 related to the stockholder notes during the years ended December 31, 1998 and 1999, respectively.

(5) LONG-TERM BORROWINGS

Long-term debt at December 31, 1999 and 2000 is as follows (in thousands):

	1999	2000
	-----	-----
Capital lease, due in aggregate monthly installments of \$195, interest rate of 7.66%, secured by equipment, balloon payment of \$4,431 due February 2006	\$ --	\$12,661
Note payable to bank, due in monthly installments of \$82.2 (includes principal and interest), fixed rate interest at 7.79%, secured by property, payment of \$8,716 due January 2011	--	10,850
Note payable to bank, due in monthly installments of \$57.6 (includes principal and interest), fixed rate interest at 7.89%, secured by property, balloon payment of \$6,776 due February 2011	--	7,850
Note payable to bank, due in monthly installments of \$25 plus interest at prime (9.5% at December 31, 2000) plus 1%, secured by equipment, due December 2002	2,400	2,100
Capital leases, due in aggregate monthly installments of \$101, interest rates from 8.75%-18.28%, secured by equipment, maturing in various installments through February 2005	1,168	2,106
	-----	-----
	3,568	35,567
Less current installments	1,060	2,452
	-----	-----
	\$ 2,508	\$33,115
	=====	=====

The aggregate maturities of long-term borrowings at December 31, 2000 are as follows:

2001.....	\$ 2,452
2002.....	4,100
2003.....	2,274
2004.....	2,461
2005.....	2,244
Thereafter.....	22,036

	\$35,567
	=====

(6) STOCKHOLDERS' EQUITY

(a) Stock Issuances

Effective as of May 28, 1999, the Company was reincorporated in Delaware. The existing California corporation was merged into a newly formed Delaware corporation and each outstanding share of common stock of the existing California corporation was exchanged, for a share of \$.001 par value Class B common stock of the new Delaware corporation. In addition, pursuant to the reincorporation merger, an approximate 13,907-for-1 common stock split was authorized. The amendment and stock split has been reflected retroactively in the accompanying consolidated financial statements.

The authorized capital stock of the Delaware corporation consists of 100,000,000 shares of Class A common stock, par value \$.001 per share, and 60,000,000 shares of Class B common stock, par value \$.001 per share. The Company has also authorized 10,000,000 shares of preferred stock, \$.001 par

value per share.

The Class A common stock and Class B common stock have identical rights other than with respect to voting, conversion and transfer. The Class A common stock is entitled to one vote per share, while the Class B common stock is entitled to ten votes per share on all matters submitted to a vote of stockholders. 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 any transfer to any person or entity which is not a permitted transferee.

On June 9, 1999, the Company issued 7,000,000 shares of Class A common stock in an initial public offering and received net proceeds of \$69,720,000.

During 2000, certain Class B stockholders converted 3,008,704 shares of Class B common stock to Class A common stock.

(b) Stock Option Plan

In January 1998, the Board of Directors of the Company adopted the 1998 Stock Option, Deferred Stock and Restricted Stock Plan (Stock Option Plan) for the grant of qualified incentive stock options (ISO), stock options not qualified and deferred stock and restricted stock. The exercise price for any option granted may not be less than fair value (110% of fair value for ISOs granted to certain employees). Under the Stock Option Plan, 5,215,154 shares are reserved for issuance. In January 1998, 1,390,715 options to acquire Class A common stock were granted at an exercise price of \$2.78 per share, which was equal to the fair value. The options vested 25% on June 9, 1999 and 25% each anniversary thereafter over the next three years. In connection with the Company's initial public offering on June 9, 1999, the Company granted 1,209,636 options to acquire Class A common stock at an exercise price of \$11 per share which vest ratably in 20% increments commencing one year from the grant date. During 2000, 118,999 of the \$11 per share options were canceled. The options expire ten years from the date of grant.

Shares subject to option under the Stock Option Plan were as follows:

	SHARES	OPTION PRICE
	-----	-----
Outstanding at December 31, 1998	1,390,715	\$ 2.78
Granted	1,209,636	11.00
Canceled	(84,777)	11.00
Outstanding at December 31, 1999	2,515,574	2.78 -- 11.00

Granted	1,532,695	3.94 -- 19.19
Exercised	(422,370)	2.78 -- 13.00
Canceled	(136,998)	3.94 -- 13.00

Outstanding at December 31, 2000	3,488,901	2.78 -- 19.19
	=====	
Exercisable at December 31, 2000	862,111	2.78 -- 18.44
	=====	
Options available for grant at December 31, 2000	1,303,883	=====
	=====	

(c) Stock Purchase Plan

Effective July 1, 1998, the Company adopted the 1998 Employee Stock Purchase Plan (1998 Stock Purchase Plan). Under the terms of the 1998 Stock Purchase Plan, 2,781,415 shares of common stock are reserved for sale to employees at a price no less than 85% of the lower of the fair market value of the Class A common stock at the beginning of the one-year offering period or the end of each of the six-month purchase periods. During 2000, 266,865 shares (90,913 shares in 1999) were issued under the 1998 Stock Purchase Plan for which the Company received \$1,073,000 (\$261,000 in 1999).

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(d) Stock Compensation

The Company accounts for stock compensation under SFAS No. 123, Accounting for Stock-Based Compensation, and has elected to measure compensation cost under Accounting Principles Board Opinion No. 25 and comply with the pro forma disclosure requirements of SFAS 123. Had compensation cost been determined using the fair value at the grant date for awards during 1998, 1999, and 2000 consistent with the provisions of SFAS No. 123, the Company's pro forma net earnings (in thousands) and earnings per share would have been reduced to the amounts as indicated below.

	1998 -----	1999 -----	2000 -----
Pro forma net earnings	\$ 14,875 =====	\$ 19,077 =====	\$ 41,458 =====
Pro forma net earnings per share:			
Basic	\$.53	\$.60	\$ 1.18
Diluted49 =====	.58 =====	1.13 =====

The fair value of each option is estimated on the date of grant. The Company used the minimum value method for stock awards prior to its initial public offering and the Black-Scholes option pricing models for stock awards afterwards. The following weighted-average assumptions used for grants were as follows:

	1998 ----	1999 ----	2000 ----
Dividend yield	--	--	--
Expected volatility	--	55%	70%
Risk-free interest rate	5.7%	6.2%	6.3%
Expected life of option	8 =====	5 =====	5 =====

The weighted-average fair value of options granted during 1998, 1999, and 2000 were \$2.78, \$6.93, and \$10.69, respectively.

(7) INCOME TAXES

The pro forma unaudited income tax adjustments for 1998 and 1999 represent taxes, which would have been reported assuming the Company had been subject to federal and state income taxes as a C Corporation the entire year. The actual and pro forma provisions for income tax expense were as follows (in thousands):

	1998 -----	1999 -----	2000 -----
Actual income taxes:			
Federal:			

Current	\$ --	\$ 8,012	\$ 25,420
Deferred	--	(792)	(1,360)
	-----	-----	-----
Total federal	--	7,220	24,060
	-----	-----	-----
State:			
Current	650	1,480	4,784
Deferred	--	(65)	(244)
	-----	-----	-----
Total state	650	1,415	4,540
	-----	-----	-----
Total actual income taxes	650	8,635	28,600
	-----	-----	-----
Pro forma adjustments:			
Federal	7,864	3,533	
State	1,534	712	
	-----	-----	
Total pro forma adjustments	9,398	4,245	
	-----	-----	
Total pro forma income taxes	\$ 10,048	\$ 12,880	
	=====	=====	

Income taxes (proforma for 1998 and 1999) differs from the statutory tax rate as applied to earnings before income taxes as follows:

	1998	1999	2000
	-----	-----	-----
Expected income tax expense	\$ 8,541	\$11,569	\$25,323
State income tax, net of federal benefit	1,507	1,311	2,951
Other	--	--	326
	-----	-----	-----
Total provision for pro forma income taxes	\$10,048	\$12,880	\$28,600
	=====	=====	=====

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 1999 and 2000 are presented below:

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Deferred tax assets:	1999	2000
	-----	-----
Inventory adjustments	\$ 615	\$1,176
State taxes	520	1,490
Allowances for receivables	1,275	2,100
Other	808	1,060
	-----	-----
Total deferred tax assets	3,218	5,826
	-----	-----
Deferred tax liabilities:		
Depreciation of property and equipment	279	1,386
Other	129	26
	-----	-----
Total deferred tax liabilities	408	1,412
	-----	-----
Net deferred tax assets	\$2,810	\$4,414

Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets.

Through June 7, 1999, the Company was treated for federal and state income tax purposes as an S Corporation under Subchapter S of the Internal Revenue Code and comparable state laws. As a result, the earnings of the Company through June 7, 1999 were included in the taxable income of the Company's stockholders for federal and state income tax purposes, and the Company was generally not subject to income tax on such earnings, other than California and other state franchise taxes.

In connection with the Company's initial public offering of its Class A common stock in June 1999, the Company terminated its S Corporation status and became a C Corporation subject to federal and state income taxes. The Company's change of status to a C Corporation resulted in the recording of deferred tax assets amounting to \$1,800,000. This amount is reflected as a reduction of actual income tax expense in the accompanying 1999 consolidated statement of earnings.

(8) BUSINESS AND CREDIT CONCENTRATIONS

The Company sells footwear products principally throughout the United States and foreign countries. The footwear industry is impacted by the general economy. Changes in the marketplace may significantly affect management's estimates and the Company's performance. Management performs regular evaluations concerning the ability of customers to satisfy their obligations and provides for estimated doubtful accounts. Domestic accounts receivable amounted to \$57,189,000 and \$87,825,000 before allowances for bad debts and returns at December 31, 1999 and 2000, respectively, which generally do not require collateral from customers. Foreign accounts receivable amounted to \$9,100,000 and \$13,955,000 before allowance for bad debts and returns at December 31, 1999 and 2000, respectively, which generally are collateralized by letters of credit. International net sales amounted to \$34,700,000, \$43,900,000 and \$65,159,000 for the years ended December 31, 1998, 1999 and 2000, respectively. The Company's credit losses for the years ended December 31, 1998, 1999 and 2000 were \$102,000, \$1,699,000 and \$537,000, respectively, and did not significantly differ from management's expectations.

Net sales to customers in the United States of America exceeded 90% of total net sales for each of the years in the three-year period ended December 31, 2000. All long-lived assets of the Company are located in the United States. The Company has no significant assets outside the United States of America.

During 1999 and 2000, no customer accounted for 10% or more of net sales. During 1998, the Company had one significant customer which accounted for 11.8% of net sales. The Company had one customer which accounted for 10.1% and 15.3% of trade accounts receivable at December 31, 1999 and 2000, respectively.

During 1998, the Company had four manufacturers that accounted for between 10.4% and 15.4% each of total purchases. During 1999, the Company had four manufacturers that accounted between 12.3% and 15.5% each of total purchases. During 2000, the company had four manufacturers that accounted for 9.2% and 20.2% each of total purchases.

Substantially all of the Company's products are produced in China. The Company's operations are subject to the customary risks of doing business abroad, including, but not limited to, currency fluctuations, 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 risk factors have not had a material adverse impact on the Company's operations.

(9) BENEFIT PLAN

The Company has adopted a profit sharing plan covering all employees who are 21 years of age and have completed one year of service. Employees may contribute up to 15.0% of annual compensation. Company contributions to the plan are discretionary and vest over a five-year period. The Company's contributions to the plan amounted to \$242,000, \$259,000 and \$500,000 for the years ended December 31, 1998, 1999 and 2000, respectively.

(10) COMMITMENTS AND CONTINGENCIES

(a) Leases

The Company leases facilities under operating lease agreements expiring through August 2011. The leases are on an all-net basis, whereby the Company pays taxes, maintenance and insurance. The Company also leases certain equipment and automobiles under operating lease agreements expiring at various dates through July 2005. Rent expense for the years ended December 31, 1998, 1999 and 2000 approximated \$7,900,000, \$9,800,000 and \$13,200,000, respectively.

The Company also leases certain property and equipment under capital lease agreements requiring monthly installment payments through February 2006.

Future minimum lease payments under noncancellable leases at December 31, 2000 are as follows (in thousands):

	CAPITAL LEASES	OPERATING LEASES
	-----	-----
Year ending December 31:		
2001.....	\$ 3,191	\$14,168
2002.....	3,013	14,210
2003.....	2,798	12,199
2004.....	2,798	11,477
2005.....	2,394	10,724
Thereafter.....	4,626	18,909
	-----	-----
	\$18,820	\$81,687
Less imputed interest.....	4,053	=====

Present value of net minimum lease payments.....	\$14,767	=====

(b) Litigation

In December 1999 and January 2000, the Company and two officers/directors were named as defendants in four purported class-action lawsuits. Two of the lawsuits also named the underwriters of the Company's initial public offering as defendants. All of the complaints seek damages and rescission on behalf of a class of persons who purchased securities in, or traceable to, the Company's initial public offering or thereafter on the open market prior to July 6, 1999. All four actions were subsequently consolidated into one matter and a consolidated complaint was filed on June 1, 2000. The consolidated complaint named as defendants the Company, two officers of the Company, and the underwriters of the Company's Offering. The class, as currently alleged in the consolidated complaint now on file, consists of all persons who purchased securities in, or traceable to, the Company's June 9, 1999 Offering or thereafter on the open market prior to June 15, 1999.

In response to the consolidated complaint, the Company filed a motion to dismiss the entire case. On September 25, 2000, the Court issued a tentative order to dismiss the consolidated complaint in its entirety, with leave to amend. As of December 31, 2000, the Court has not issued a final order. Thus, as these matters are in still in the pleading stage and no discovery has been conducted, neither the Company nor Company counsel are able to conclude as to the potential likelihood of an unfavorable outcome. In any event, the Company is vigorously defending the claims and believes that its defenses are meritorious. The Company also maintains insurance that it believes covers all the matters alleged in the consolidated complaint as currently pled. Accordingly, the Company has not provided for any potential losses associated with these lawsuits.

The Company is involved in other litigation arising from the ordinary course of business. Management does not believe that the disposition of these matters will have a material effect on the Company's financial position or results of operations.

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(c) Purchase Commitments

At December 31, 2000, the Company had purchase commitments of approximately \$107,000,000.

The Company finances production activities in part through the use of interest-bearing open purchase arrangements with certain of its Asian manufacturers. These arrangements currently bear interest at a rate between 1% and 2% per 30 to 60 day term. The amounts outstanding under these arrangements at December 31, 1999 and 2000 were \$34,900,000 and \$48,484,000, respectively, which are included in accounts payable in the accompanying consolidated financial statements. Interest expense incurred by the Company under these arrangements amounted to \$2,900,000 in 1998, \$3,000,000 in 1999 and \$6,400,000 in 2000.

(d) Compensation

Certain officers and key employees of the company are entitled to incentive bonuses under employment contracts. The bonuses are based on company performance

(11) SUBSEQUENT EVENT

In February 2001, the Company completed the purchase of three separate real properties, located in Manhattan Beach, California, for a total of \$4,500,000.

(12) SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

2000	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
----	-----	-----	-----	-----
Net sales	\$133,344	\$163,899	\$205,749	\$172,044
Gross profit	53,634	69,137	86,911	74,543
Net earnings	6,734	12,010	15,286	9,721
	=====	=====	=====	=====
Net earnings per share:				
Basic	\$.19	\$.34	\$.43	\$.27
Diluted19	.33	.40	.26
	=====	=====	=====	=====

1999	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
Net sales	\$ 95,736	\$104,582	\$124,177	\$100,106
Gross profit	36,698	42,732	52,837	42,341
Pro forma net earnings	2,104	6,248	8,545	2,914
Pro forma net earnings per share:				
Basic	\$.08	\$.21	\$.25	\$.08
Diluted07	.20	.24	.08

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SKECHERS U.S.A., INC.

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 1998, 1999, AND 2000

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS AND WRITE-OFFS	BALANCE AT END OF PERIOD
As of December 31, 1998:				
Allowance for obsolescence	\$ 908,000	\$ 64,000	\$ (465,000)	\$ 507,000
Allowance for doubtful accounts	1,265,000	702,000	(501,000)	1,466,000
Reserve for sales returns and allowances	725,000	10,840,000	(9,618,000)	1,947,000
As of December 31, 1999:				
Allowance for obsolescence	\$ 507,000	\$ 134,000	\$ --	\$ 641,000
Allowance for doubtful accounts	1,466,000	740,000	(1,699,000)	507,000
Reserve for sales returns and allowances	1,947,000	13,600,000	(12,817,000)	2,730,000
As of December 31, 2000:				
Allowance for obsolescence	\$ 641,000	\$ 177,000	\$ --	\$ 818,000
Allowance for doubtful accounts	507,000	1,326,000	(537,000)	1,296,000
Reserve for sales returns and allowances	2,730,000	15,651,000	(14,525,000)	3,856,000

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THIRD AMENDMENT OF AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

This Third Amendment of Amended and Restated Loan and Security Agreement (this "Amendment") is made as of February 1, 2000 by and between SKECHERS U.S.A., INC., a California corporation ("Borrower") and THE CIT GROUP/COMMERCIAL SERVICES, INC., a New York corporation ("Lender"), successor by purchase to the Commercial Services Division of Heller Financial, Inc. This Amendment is made with reference to that certain Amended and Restated Loan and Security Agreement dated as of September 4, 1998 by and between Borrower and Lender (as amended from time to time, the "Loan Agreement"). All capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Loan Agreement.

Whereas, Borrower and Lender desire to amend certain terms of the Loan Agreement as set forth below;

Now, Therefore, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. AMENDMENT

1.1 Subsection 4.6 of the Loan Agreement is amended by adding the following new trade names or styles to Schedule 4.6:

SKECHERS SPORT
SKECHERS COLLECTIONS

SECTION 2. RATIFICATION OF AGREEMENT

2.1 To induce Lender to enter into this Amendment, Borrower represents and warrants that after giving effect to this Amendment no violation of the terms of the Loan Agreement exist and all representations and warranties contained in the Loan Agreement are true, correct and complete in all material respects on and as of the date hereof except to the extent such representations and warranties specifically relate to an earlier date in which case they were true, correct and complete in all material respects on and as of such earlier date.

2.2 Except as expressly set forth in this Amendment, the terms, provisions and conditions of the Loan Agreement and the other Loan Documents are unchanged, and said agreements, as amended, shall remain in full force and effect and are hereby confirmed and ratified.

SECTION 3. COUNTERPARTS; EFFECTIVENESS

This Amendment may be executed in any number of counterparts, and all such counterparts taken together shall be deemed to constitute one and the same instrument. Signature pages may be detached from counterpart documents and reassembled to form duplicate executed originals. This Amendment shall become effective as of the date hereof upon the execution of the counterparts hereof by Borrower, Guarantor and Lender.

SECTION 4. GOVERNING LAW

THIS AMENDMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA.

Witness the execution hereof by the respective duly authorized officers of the undersigned as of the date first above written.

THE CIT GROUP/COMMERCIAL SERVICES, INC.

SKECHERS U.S.A., INC.

By: /s/ WILLIAM F. ELLIOTT

By: /s/ DAVID WEINBERG

Title: Vice President

Title: CFO

FOURTH AMENDMENT TO LOAN AND SECURITY AGREEMENT

This Fourth Amendment to that certain Amended and Restated Loan and Security Agreement ("Amendment") is made and entered into as of June 1, 2000, by and between Skechers U.S.A., Inc. ("Borrower") and The CIT Group/Commercial Services, Inc. ("CIT"), successor by purchase to the Commercial Services Division of Heller Financial, Inc., as Agent and as Lender ("Agent"). All capitalized terms used herein and not otherwise defined shall have the meanings set forth to such terms in the Amended and Restated Loan and Security Agreement.

WHEREAS, Agent and Borrower are parties to a certain Amended and Restated Loan and Security Agreement, dated September 4, 1998 and all amendments thereto (the "Agreement"); and

WHEREAS, Borrower and Agent desire to amend the Agreement as hereinafter set forth;

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. AMENDMENT

1.1 Throughout the Agreement and in any other agreement between the parties thereto, any reference to Heller shall be deleted and CIT shall be inserted in lieu thereof.

1.2 Delete the first paragraph of subpart (A) to subsection 2.2 and substitute the following new paragraph:

(A) Rate of Interest. All Loans shall be Base Rate Loans. The Loans and all other Obligations shall bear interest from the date such Loans are made or such other Obligations become due to the date paid at a rate per annum equal to: (a) the Base Rate minus 0.50% with respect to the Revolving Loan, Swingline Loan and other Obligations for which no other interest rate is specified, and (b) The Base Rate plus 1.0% with respect to Term Loan A (collectively, the "Interest Rate"). Any publicly announced change in the Base Rate shall result in an adjustment to the Interest Rate as of the first of the month following such change in the Base Rate.

1.3 Add the following new definition to subsection 11.1:

"CIT" means The CIT Group/Commercial Services, Inc.

SECTION 2. RATIFICATION OF AGREEMENT

2.1 To induce CIT to enter into this Amendment, Borrower represents and warrants that after giving effect to this Amendment, no violation of the terms of the Agreement exist and all representations and warranties contained in the Agreement are true, correct and complete in all material respects on and as of the date hereof.

2.2 Except as previously set forth in this Amendment, the terms, provisions and conditions of the Agreement are unchanged, and said Agreement, as amended, shall remain in full force and effect and is hereby confirmed and ratified.

SECTION 3. COUNTERPARTS; EFFECTIVENESS

This Amendment may be executed in any number of counterparts, and all such counterparts taken together shall be deemed to constitute one and the same instrument.

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Signature pages may be detached from counterpart documents and reassembled to form duplicate executed originals. This Amendment shall become effective as of the date hereof upon the execution of the counterparts hereof by Borrower, Guarantor and CIT.

SECTION 4. GOVERNING LAW

THIS AMENDMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA.

SECTION 5. ACKNOWLEDGMENT AND CONSENT BY GUARANTORS

Each Guarantor hereby acknowledges that it has read this Amendment and consents to the terms thereof and further hereby confirms and agrees that, notwithstanding the effectiveness of this Amendment, the obligations of such Guarantor under its respective guaranty shall not be impaired or affected and the guaranties are, and shall continue to be, in full force and effect and are hereby confirmed and ratified in all respects.

Witness the execution hereof by the respective duly authorized officers of the undersigned as of the date first above written.

THE CIT GROUP/COMMERCIAL SERVICES, INC., as Agent and as Lender

By: /s/ WILLIAM F. ELLIOTT

Title: Vice President

SKECHERS U.S.A., INC.

ATTEST:

/s/ PHILIP C. PACCIONE

By: /s/ DAVID WEINBERG

Title: -----

GUARANTOR:

SKECHERS USA, INC. II,
a Delaware corporation

By: /s/ DAVID WEINBERG

Title: -----

SKECHERS BY MAIL, INC.,
a Delaware corporation

By: /s/ DAVID WEINBERG

Title: -----

STANDARD OFFER, AGREEMENT AND ESCROW
INSTRUCTIONS FOR PURCHASE OF REAL ESTATE
(NON-RESIDENTIAL)
American Industrial Real Estate Association

October 12, 2000

(Date of Reference Purposes)

1. BUYER.

1.1 Skechers USA, Inc. and/or assignee

_____"BUYER") hereby offers to purchase the real property,
hereinafter described, from the owner thereof ("SELLER") (collectively,
the "PARTIES" or individually, a "PARTY"), through an escrow ("ESCROW")
to close on or before December 15, 2000 ("EXPECTED CLOSING

DATE") to be held by First American Title Company ("Escrow Holder")
whose address is _____, Phone

No. _____, Facsimile No. _____

upon the terms and conditions set forth in this agreement
("AGREEMENT"). Buyer shall have the right to assign Buyer's rights
hereunder, but any such assignment shall not relieve Buyer of Buyer's
obligations herein unless Seller expressly releases Buyer.

1.2 The term "DATE OF AGREEMENT" as used herein shall be the
date when by execution and delivery (as defined in paragraph 20.2) of
this document or a subsequent counter-offer thereto, Buyer and Seller
have reached agreement in writing whereby Seller agrees to sell, and
Buyer agrees to purchase, the Property upon terms accepted by both
Parties.

2. PROPERTY.

2.1 The real property ("Property") that is the subject of this
offer consists of (insert a brief physical description)
a new concrete tilt-up industrial building of approximately

263,670 sq ft situated on approximately 12.63 acres of land

is located in the City of Ontario, County of San Bernardino

, State of California, is commonly known by the street address of

1670 Champagne Avenue and is legally described as:
to be supplied in escrow (APN: _____).

2.2 If the legal description of the Property is not complete
or is inaccurate, this Agreement shall not be invalid and the legal
description shall be completed or corrected to meet the requirements of
First American Title Company ("TITLE COMPANY"), which shall issue the

title policy hereinafter described.

2.3 The Property includes, at no additional cost to Buyer, the
permanent improvements thereon, including those items which the law of
the state in which the Property is located provides is part of the
Property, as well as the following items, if any, owned by Seller and

at present located on the Property: electrical distribution systems (power panel, bus ducting, conduits, disconnects, lighting fixtures); telephone distribution systems (lines, jacks and connections only); space heaters; heating; ventilating; air conditioning equipment ("HVAC"); air lines; fire sprinkler systems; security and fire detection systems; carpets; window coverings; wall coverings; and Buyer acknowledges that the Property has been completed to the specifications to be met by the Lessor as set forth in that certain lease dated October 15, 1999 by and between Champagne Building Group, LP "Lessor" and Skechers USA, Inc. "Lessee" (the "Lease"), subject, however, to representations, warranties and covenants of Seller specifically set forth in this Agreement (collectively, the "IMPROVEMENTS").

2.4 Within the time period specified in paragraph 9.1(a), Seller shall make to Buyer, through escrow, all of the applicable disclosures required by law (See American Industrial Real Estate Association ("AIR") standard form entitled "Sellers Mandatory Disclosure Statement").

3. PURCHASE PRICE.

3.1 The purchase price ("PURCHASE PRICE") to be paid by Buyer to Seller for the Property shall be \$11,450,000.00, payable as follows:

	(a)	Cash down payment, including the Deposit as defined in paragraph 4.3 (or if an all cash transaction, the Purchase Price)	\$2,850,000.00

(Strike if not applicable)	(b)	Amount of "New Loan" as defined in paragraph 5.1, if any:	\$8,600,000

	(c)	Buyer shall take title to the Property subject to the following existing deeds) of trust ("EXISTING DEED(S) OF TRUST") securing the existing promissory notes) ("EXISTING Notes"): (i) An Existing Note ("First Note") with an unpaid principal balance as of the	

/s/ Illegible

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(Strike if not applicable) Closing of approximately: \$ _____
Said First Note is payable at \$ _____
per month, annum until paid (and/or the
including interest at the rate of _____ %
per entire unpaid balance is due
on _____).

(ii) An Existing Note ("SECOND NOTE") with an unpaid principal balance as of the
Closing of approximately: \$ _____
Said Second Note is payable at \$ _____
per month, including interest at the rate
of _____ % per annum until paid
(and/or the entire unpaid balance is due
on _____),

(d) Buyer shall give Seller a deed of trust ("PURCHASE MONEY DEED OF TRUST") on the Property, to secure the promissory note of Buyer to Seller described in paragraph 6 ("PURCHASE MONEY NOTE") in the amount of: \$ _____

Total Purchase Price: \$11,450,000.00

3.2 If an Existing Deed of Trust permits the beneficiary to demand payment of fees including, but not limited to, points, processing fees, and appraisal fees as a condition to the transfer of the Property, Buyer agrees to pay such fees up to a maximum of 1.5% of the unpaid principal balance of the applicable Existing Note.

4. DEPOSITS

4.1 Buyer hereby delivers a check in the sum of \$200,000.00 , payable to Escrow Holder, to be held uncashed until the Date of Agreement. Such check shall be deposited in accordance with paragraph 4.3 and applied toward the Purchase Price of the Property at the Closing. Should Buyer and Seller not enter into an agreement for purchase and sale, Buyer's check or funds shall, upon request by Buyer, be promptly returned to Buyer.

4.2 Additional deposits:

(a) Within 5 business days after the Date of Agreement, Buyer shall deposit with Escrow Holder the additional sum of \$ 0 to be applied to the

Purchase Price at the Closing

(b) Within 5 business days after the contingencies discussed in paragraph 9.1(a) through (k) are approved or waived, Buyer shall deposit with Escrow Holder the additional sum of \$ 0 to be applied to the Purchase Price at

the Closing.

4.3 Escrow Holder shall deposit the funds deposited with it by Buyer pursuant to paragraphs 4.1 and 4.2 (collectively the "DEPOSIT"), in a State or Federally chartered bank in an interest bearing account whose term is appropriate and consistent with the timing requirements of this transaction. The interest therefrom shall accrue to the benefit of Buyer, who hereby acknowledges that there may be penalties or interest forfeitures if the applicable instrument is redeemed prior to its specified maturity. Buyer's Federal Tax Identification Number is _____ NOTE: Such interest bearing account cannot be opened until Buyer's Federal Tax Identification Number is provided.

5. FINANCING CONTINGENCY (Strike if not applicable)

5.1 This offer is contingent upon Buyer obtaining from an insurance company, financial institution or other lender, a commitment to lend to Buyer a sum not less than \$8,600,000 , at terms reasonably

acceptable to Buyer. Such loan ("NEW LOAN") shall be secured by a first trust upon the Property.

5.2 Buyer hereby agrees to diligently pursue obtaining the New Loan. If Buyer shall fail to notify Escrow Holder and Seller, in writing within 30 days following the Date of Agreement, that the New

Loan has not been obtained, it shall be conclusively presumed that Buyer has either obtained said New Loan or has waived this New Loan contingency.

5.3 If, after due diligence, Buyer shall notify Escrow Holder

and Seller, in writing, within the time specified in paragraph 5.2 hereof, that Buyer has not obtained said New Loan, this Agreement shall be terminated, and Buyer shall be entitled to the prompt return of the Deposit, plus any interest earned thereon, less only Escrow Holder and Title Company cancellation fees and costs, which Buyer shall pay.

6. SELLER FINANCING (Purchase Money Note) (Strike if not applicable).

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7. REAL ESTATE BROKERS.

7.1 The following real estate broker(s) ("BROKERS") and brokerage relationships exist in this transaction and are consented to by the Parties (check the applicable boxes):

- Seeley Company (pursuant to separate agreement)

represents Seller exclusively ("SELLER'S BROKER");
- CB Richard Ellis, Inc. (pursuant to separate agreement)

represents Buyer exclusively ("BUYER'S BROKER"); or
- represents both Seller Buyer ("DUAL AGENCY").

Brokers' rights and entitlement to compensation in connection with the transaction contemplated by this Agreement, if any, are governed by agreements separate from this Agreement (the "BROKER AGREEMENTS"). Brokers ARE NOT third party beneficiaries to this Agreement. Notwithstanding any statement to the contrary elsewhere in this Agreement, Brokers (i) have no authority to act for either Party and (ii) have no rights to receive any notices with regard to any matter pursuant to this Agreement. See paragraph 24 for disclosures regarding the nature of a real estate agency relationship.

7.2 Buyer and Seller each represent and warrant to the other that he/she/it has had no dealings with any person, firm, broker or finder in connection with the negotiation of this Agreement and/or the consummation of the purchase and sale contemplated herein, other than the Brokers named in paragraph 7.1, and no broker or other person, firm or entity, other than said Brokers is/are entitled to any commission or finder's fee in connection with this transaction as the result of any dealings or acts of such Party. Buyer and Seller do each hereby agree to indemnify, defend, protect and hold the other harmless from and against any costs, expenses or liability for compensation, commission or charges which may be claimed by any broker, finder or other similar party, other than said named Brokers by reason of any dealings or act of the indemnifying Party.

8. ESCROW AND CLOSING.

8.1 Upon acceptance hereof by Seller, this Agreement, including any counter-offers incorporated herein by the Parties, shall constitute not only the agreement of purchase and sale between Buyer and Seller, but also instructions to Escrow Holder for the consummation of the Agreement through the Escrow. Escrow Holder shall not prepare any further escrow instructions restating or amending the Agreement

unless specifically so instructed by the Parties. Subject to the reasonable approval of the Parties, Escrow Holder may, however, include its standard general escrow provisions.

8.2 As soon as practical after the receipt of this Agreement and any relevant counter-offers, Escrow Holder shall ascertain the Date of Agreement as defined in paragraphs 1.2 and 20.2 and advise the Parties in writing, of the date ascertained.

8.3 Escrow Holder is hereby authorized and instructed to conduct the Escrow in accordance with this Agreement, applicable law and custom and practice of the community in which Escrow Holder is located, including any reporting requirements of the Internal Revenue Code. In the event of a conflict between the law of the state where the Property is located and the law of the state where the Escrow Holder is located, the law of the state where the Property is located shall prevail.

8.4 Subject to satisfaction of the contingencies herein described, Escrow Holder shall close this escrow (the "CLOSING") by recording a general warranty deed (a grant deed in California) and the other documents required to be recorded, and by disbursing the funds and documents in accordance with this Agreement.

8.5 Buyer and Seller shall each pay one-half of the Escrow Holder's charges and Seller shall pay the usual recording fees and any required documentary transfer taxes. Seller shall pay the premium for a standard coverage owner's or joint protection policy of title insurance.

8.6 Escrow Holder shall verify that all of Buyer's contingencies have been satisfied or waived prior to Closing. The matters contained in paragraphs 9.1 subparagraphs (b), (c), (d), (e), (g), (i), (n), and (o), 9.4, 9.5, 12, 13, 14, 16, 18, 20, 21, 22, and 24 are, however, matters of agreement between the Parties only and in no way constitute instructions to Escrow Holder.

8.7 If this transaction is terminated for non-satisfaction and non-waiver of a Buyer's Contingency, as defined in paragraph 9.2, then neither of the Parties shall thereafter have any liability to the other under this Agreement, except to the extent of the breach of any affirmative covenant or warranty in this Agreement. In the event of such termination, Buyer shall be promptly refunded all funds deposited by Buyer with Escrow Holder, less only Title Company and Escrow Holder cancellation fees and costs, all of which shall be Buyer's obligation.

8.8 The Closing shall occur on the Expected Closing Date, or as soon thereafter as the Escrow is in condition for Closing; provided, however, that if the closing does not occur by the Expected Closing Date and said Date is not extended by mutual instructions of the Parties, a Party not then in default under this Agreement may notify the other Party and, Escrow Holder in writing that, unless the Closing occurs within 5 business days following said notice, the Escrow shall be deemed terminated without further notice or instructions.

8.9 Except as otherwise provided herein, the termination of Escrow shall not relieve or release either Party from any obligation to pay Escrow Holder's fees and costs or constitute a waiver, release or discharge of any breach or default that has occurred in the performance of the obligations, agreements, covenants or warranties contained therein.

8.10 If this Escrow is terminated for any reason other than Seller's breach or default, then at Seller's request, and as a condition to the return of Buyer's deposit, Buyer shall within 5 days after written request deliver to Seller, at no charge, copies of all surveys, engineering studies, soil reports, maps, master plans, feasibility studies and other similar items prepared by or for Buyer

that pertain to the Property. Provided, however, that Buyer shall not be required to deliver any such report if the written contract which Buyer entered into with the consultant who prepared such report specifically forbids the dissemination of the report to others.

9. CONTINGENCIES TO CLOSING.

9.1 The Closing of this transaction is contingent upon the satisfaction or waiver of the following contingencies. IF BUYER FAILS TO NOTIFY ESCROW HOLDER, IN WRITING, OF THE DISAPPROVAL OF ANY OF SAID CONTINGENCIES WITHIN THE TIME SPECIFIED THEREIN, IT SHALL BE CONCLUSIVELY PRESUMED THAT BUYER HAS APPROVED SUCH ITEM, MATTER OR DOCUMENT. Buyer's conditional approval shall

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constitute disapproval, unless provision is made by the Seller within the time specified therefor by the Buyer in such conditional approval or by this Agreement, whichever is later, for the same position of the condition imposed by the Buyer. Escrow Holder shall promptly provide all Parties with copies of any written disapproval or conditional approval which it receives. With regard to subparagraphs (a) through (l) the pre-printed time periods shall control unless a different number of days is inserted in the spaces provided.

(a) Disclosure. Seller shall disclose to Buyer any matters required by applicable law (see paragraph 2.4) and provide Buyer with a completed Property Information Sheet ("PROPERTY INFORMATION SHEET") concerning the Property, duly executed by or on behalf of Seller in the current form or equivalent to that published by the AIR within 10 or _____ following the Date of Agreement. Buyer has 10 days from the receipt of said disclosures to approve or disapprove the matters disclosed.

(b) Physical Inspection. Buyer has 10 or _____ days from the receipt of the Property Information Sheet or the Date of Agreement, whichever is later, to satisfy itself with regard to the physical aspects and size of the Property.

(c) Hazardous Substance Conditions Report. Buyer has 30 days
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from the receipt of the Property Information Sheet, or the Date of Agreement, whichever is later, to satisfy itself with regard to the environmental aspects of the Property. Seller recommends that Buyer obtain a hazardous Substance Conditions Report concerning the Property and relevant adjoining properties. Any such report shall be paid for by Buyer. A "HAZARDOUS SUBSTANCE" for purposes of this Agreement is defined as any substance whose nature and/or quantity of existence, use, manufacture, disposal or effect, render it subject to Federal, state or local regulation, investigation, remediation or removal as potentially injurious to public health or welfare. A "HAZARDOUS SUBSTANCE CONDITION" for purposes of this Agreement is defined as the existence on, under or relevantly adjacent to the Property of a Hazardous Substance that would require remediation and/or removal under applicable Federal, state or local law.

(d) Soil Inspection. Buyer has 30 days from the receipt of the
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Property Information Sheet or the Date of Agreement, whichever is

later, to satisfy itself with regard to the condition of the soils on the Property. Seller recommends that Buyer obtain a soil test report. Any such report shall be paid for by Buyer. Seller shall provide Buyer copies of any soils report that Seller may have within 10 days of the Date of Agreement.

(e) Governmental Approvals. Buyer has 10 days from the Date of

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Agreement to satisfy itself with regard to approvals and permits from governmental agencies or departments which have or may have jurisdiction over the Property and which Buyer deems necessary or desirable in connection with its intended use of the Property, Including, but not limited to, permits and approvals required with respect to zoning, planning, building and safety, fire, police, handicapped and Americans with Disabilities Act requirements, transportation and environmental matters.

(f) Conditions of Title. Escrow Holder shall cause a current commitment for title insurance ("TITLE COMMITMENT") concerning the Property issued by the title Company, as well as legible copies of all documents referred to in the Title Commitment ("UNDERLYING DOCUMENTS") to be delivered to Buyer within 10 or _____ days following the Date of Agreement. Buyer has 10 days from the receipt of the Title Commitment, the Survey referred to in 9.1(g), and Underlying Documents to satisfy itself with regard to the condition of title. The disapproval of Buyer of any monetary encumbrance, which by the terms of this Agreement is not to remain against the Property after the Closing, shall not be considered a failure of this contingency; as Seller shall have the obligation, at Seller's expense, to satisfy and remove such disapproved monetary encumbrance at or before the Closing.

(g) Survey. Buyer has 30 days from the receipt of the Title

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Commitment the Survey described in this paragraph 9.1(g), and Underlying Documents to satisfy itself with regard to any ALTA title supplement based upon a survey prepared to American Land Title Association ("ALTA") standards for an owner's policy by a licensed surveyor, showing the legal description and boundary lines of the Property, any easements of record, and any improvements, poles, structures and things located within 10 feet of either side of the Property boundary lines. Any such survey shall be prepared at Seller's direction and expense. If Buyer has obtained a survey and approved the ALTA title supplement, Buyer may elect within the period allowed for Buyer's approval of a survey to have an ALTA extended coverage owner's form of title policy, in which event Buyer shall pay any additional premium attributable thereto.

(h) Existing Leases and Tenancy Statements. N/A Buyer is the Lessee under the Lease.

(i) Other Agreements. Seller shall within 10 or 5 days of the

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Date of Agreement provide Buyer with legible copies of all other agreements ("OTHER AGREEMENTS") known to Seller that will affect the Property after Closing. Buyer has 10 days from the receipt of said Other Agreements to satisfy itself with regard to such Agreements.

(j) Financing. If paragraph 5 hereof dealing with a financing contingency has not been stricken, the satisfaction or waiver of such New Loan contingency.

(l) Personal Property. In the event that any personal property is included in the Purchase Price, Buyer has 10 or _____ days from the Date of Agreement to satisfy itself with regard to the title condition of such personal property. Seller recommends that Buyer obtain a UCC-1 report. Any such report shall be paid for by Buyer. Seller shall provide Buyer copies of any liens or encumbrances affecting such personal property that it is aware of within 10 or

_____ days of the Date of Agreement.

(m) Destruction. Damage or Loss. There shall not have occurred prior to the Closing, a destruction of, or damage or loss to, the Property or any portion thereof, from any cause whatsoever other than Buyer (as Tenant under the Lease or such Tenant's invitees), which would cost more than \$10,000.00 to repair or cure. If the cost of repair or cure is \$10,000.00 or less, Seller shall repair or cure the loss prior to the Closing. Buyer shall have the option, within 10 days after receipt of written notice of a loss costing more than \$10,000.00 to repair or cure, to either terminate this transaction or to purchase the Property notwithstanding such loss, but without deduction or offset against the Purchase Price. If the cost to repair or cure is more than \$10,000.00 and Buyer does not elect to terminate this transaction, Buyer shall be entitled to any insurance proceeds applicable to such loss. Unless otherwise notified in

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writing, Escrow Holder shall assume no such destruction, damage or loss has occurred prior to Closing.

(n) Material Change. Buyer shall have 10 days following receipt of written notice of a Material Change within which to satisfy itself with regard to such change. "MATERIAL CHANGE" shall mean a change in the status of the use, occupancy, tenancy or condition of the Property that occurs after the date of this offer and prior to the Closing. Unless otherwise notified in writing, Escrow Holder shall assume that no Material Change has occurred prior to the Closing.

(o) Seller Performance. The delivery of all documents and the due performance by Seller of each and every undertaking and agreement to be performed by Seller under this Agreement.

(p) Warranties. That each representation and warranty of Seller herein be true and correct as of the Closing. Escrow Holder shall assume that this condition has been satisfied unless notified to the contrary in writing by any Party prior to the Closing.

9.2 All of the contingencies specified in subparagraphs (a) through (p) of paragraph 9.1 and In part A of the Additional Provisions attached hereto are for the benefit of, and may be waived by, Buyer, and may be elsewhere herein referred to as "BUYER CONTINGENCIES."

9.3 If any Buyer's Contingency or any other matter subject to Buyers approval is disapproved as provided for herein in a timely manner ("DISAPPROVED ITEM"), Seller shall have the right within 10 days following the receipt of notice of Buyers disapproval to elect to cure such Disapproved Item prior to the Expected Closing Date ("SELLERS ELECTION"). Seller's failure to give to Buyer within said 10 day period, written notice of Seller's commitment to cure such Disapproved Item on or before the Expected Closing Date shall be conclusively presumed to be Seller's Election not to cure such Disapproved Item. If Seller elects, either by written notice or failure to give written notice, not to cure a Disapproved Item, Buyer shall have the election, within 10 days after Sellers Election to either accept title to the Property subject to such Disapproved Item, or to terminate this transaction. Buyer's failure to notify Seller in writing of Buyer's election to accept title to the Property subject to the Disapproved

Item without deduction or offset shall constitute Buyer's election to terminate this transaction. Unless expressly provided otherwise herein, Sellers right to cure shall not apply to the remediation of Hazardous Substance Conditions or to the Financing Contingency. Unless the Parties mutually instruct otherwise, if the time periods for the satisfaction of contingencies or for Sellers and Buyers said Elections would expire on a date after the Expected Closing Date, the Expected Closing Date shall be deemed extended to coincide with the expiration of 3 business days following the expiration of. (a) the applicable contingency period(s), (b) the period within which the Seller may elect to cure the Disapproved Item, or (c) if Seller elects not to cure, the period within which Buyer may elect to proceed with this transaction, whichever is later.

9.4 Buyer understands and agrees that until such time as all Buyer's Contingencies have been satisfied or waived, Seller and/or its agents may solicit, entertain and/or accept back-up offers to purchase the subject Property.

10. DOCUMENTS REQUIRED AT OR BEFORE CLOSING:

10.1 Five days prior to the Closing Date Escrow Holder shall obtain an updated Title Commitment concerning the Property from the Title Company and provide copies thereof to each of the Parties.

10.2 Seller shall deliver to Escrow Holder in time for delivery to Buyer at the Closing, an original ink signed:

(a) Grant of general warranty deed, duly executed and in recordable form, conveying fee title to the Property to Buyer.

(b) If paragraph 3.1(c) has not been stricken, the Beneficiary Statements concerning Existing Note(s).

(c) If applicable, the Existing Leases and Other Agreements together with duly executed assignments thereof by Seller and Buyer. The assignment of Existing Leases shall be on the most recent Assignment and Assumption of Lessor's Interest in Lease form published by the AIR or its equivalent.

(d) If applicable, Estoppel Certificates executed by Seller and/or the tenant(s) of the Property.

(e) An affidavit executed by Seller to the effect that Seller is not a "foreign person" within the meaning of Internal Revenue Code Section 1445 or successor statutes. If Seller does not provide such affidavit in form reasonably satisfactory to Buyer at least 3 business days prior to the Closing. Escrow Holder shall at the Closing deduct from Seller's proceeds and remit to Internal Revenue Service such sum as is required by applicable Federal law with respect to purchases from foreign sellers.

(f) If the Property is located in California, an affidavit executed by Seller to the effect that Seller is not a "nonresident" within the meaning of California Revenue and Tax Code Section 18662 or successor statutes. If Seller does not provide such affidavit in form reasonably satisfactory to Buyer at least three business days prior to the Closing, Escrow Holder shall at the Closing deduct from Seller's proceeds and remit to the Franchise Tax Board such sum as is required by such statute.

(g) If applicable, a bill of sale, duly executed, conveying title to any included personal property to Buyer.

(h) If the Seller is a corporation, a duly executed corporate resolution authorizing the execution of this Agreement and the sale of the Property.

10.3 Buyer shall deliver to Seller through Escrow:

(a) The cash portion of the Purchase Price and such additional sums as

are required of Buyer under this Agreement for prorations, expenses and adjustments. The balance of the cash portion of the Purchase Price, including Buyer's Escrow charges and other cash charges, if any, shall be deposited by Buyer with Escrow Holder, by federal funds wire transfer, or any other method acceptable to Escrow Holder as immediately collectable funds, no later than 2:00 P.M. on the business day prior to the Expected Closing Date.

(b) If a Purchase Money Note and Purchase Money Deed of Trust are called for by this Agreement, the duly executed originals of those documents, the Purchase Money Deed of Trust being in recordable form, together with evidence of fire insurance on the improvements in the amount of the full replacement cost naming Seller as a mortgage loss payee, and a real estate tax service contract (at Buyer's expense). assuring Seller of notice of the status of payment of real property taxes during the life of the Purchase Money Note.

(c) The Assignment and Assumption of Lessors Interest in Lease form specified in paragraph 10.2(c) above, duly executed by Buyer.

(d) Assumptions duly executed by Buyer of the obligations of Seller that accrue after Closing under any Other Agreements.

(e) If applicable, a written assumption duly executed by Buyer of the loan documents with respect to Existing Notes.

(f) If the Buyer is a corporation, a duly executed corporate resolution authorizing the execution of this Agreement and the purchase of the Property.

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10.4 At Closing, Escrow Holder shall cause to be issued to Buyer a standard coverage (or ALTA extended, if elected under paragraph 9.1(g)) owner's form policy of title insurance effective as of the Closing, issued by the Title Company in the full amount of the Purchase Price, insuring title to the Property vested in Buyer, subject only to the exceptions approved by Buyer. In the event there is a Purchase Money Deed of Trust in this transaction, the policy of title insurance shall be a joint protection policy insuring both Buyer and Seller.

IMPORTANT: IN A PURCHASE OR EXCHANGE OF REAL PROPERTY, IT MAY BE ADVISABLE TO OBTAIN TITLE INSURANCE IN CONNECTION WITH THE CLOSE OF ESCROW SINCE THERE MAY BE PRIOR RECORDED LIENS AND ENCUMBRANCES WHICH AFFECT YOUR INTEREST IN THE PROPERTY BEING ACQUIRED. A NEW POLICY OF TITLE INSURANCE SHOULD BE OBTAINED IN ORDER TO ENSURE YOUR INTEREST IN THE PROPERTY THAT YOU ARE ACQUIRING.

11. PRORATIONS AND ADJUSTMENTS.

11.1 Taxes. Real property taxes and special assessment bonds payable by the owner of the Property shall be prorated through Escrow as of the date of the Closing, based upon the latest tax bill available. The Parties agree to prorate as of the Closing any taxes assessed against the Property by supplemental bill levied by reason of events occurring prior to the Closing. Payment shall be made promptly in cash upon receipt of a copy of any such supplemental bill of the amount necessary to accomplish such proration.

11.2 Insurance. WARNING: The insurance coverage which Seller maintained on the Property will terminate on the Closing. Buyer is advised to obtain appropriate insurance to cover the Property.

11.3 Rentals, Interest and Expenses. Collected rentals, interest on Existing Notes, utilities, and operating expenses shall be prorated as of the date of Closing. The Parties agree to promptly adjust between themselves outside of Escrow any rents received after the Closing.

11.4 Security Deposit. Security Deposits held by Seller shall be given to Buyer as a credit to the cash required of Buyer at the Closing.

11.5 Post Closing Matters. Any item to be prorated that is not determined or determinable at the Closing shall be promptly adjusted by the Parties by appropriate cash payment outside of the Escrow when the amount due is determined.

11.6 Variations in Existing Note Balances. In the event that Buyer Is taking title to the Property subject to an Existing Deed of Trust(s), and in the event that a Beneficiary Statement as to the applicable Existing Note(s) discloses that the unpaid principal balance of such Existing Note(s) at the Closing will be more or less than the amount set forth in paragraph 3.1(c) hereof ("EXISTING NOTE VARIATION"), then the Purchase Money Note(s) shall be reduced or increased by an amount equal to such Existing Note Variation. If there is to be no Purchase Money Note, the cash required at the Closing per paragraph 3.1 (a) shall be reduced or increased by the amount of such Existing Note Variation.

11.7 Variations in New Loan Balance. In the event Buyer Is obtaining a New Loan and in the event that the amount of the New Loan actually obtained is greater than the amount set forth In paragraph 5.1 hereof, the Purchase Money Note, if one is called for in this transaction, shall be reduced by the excess of the actual face amount of the New Loan over such amount as designated in paragraph 5.1 hereof.

12. REPRESENTATION AND WARRANTIES OF SELLER AND DISCLAIMERS.

12.1 Sellers warranties and representations shall survive the Closing and delivery of the deed for a period of three years, and, are true, material and relied upon by Buyer in all respects. Seller hereby makes the following warranties and representations to Buyer:

(a) Authority of Seller. Seller is the owner of the Property and/or has the full right, power and authority to sell, convey and transfer the Property to Buyer as provided herein, and to perform Sellers obligations hereunder.

(b) Maintenance During Escrow and Equipment Condition At Closing. Except as otherwise provided in paragraph 9.1(m) hereof, Seller shall maintain the Property until the Closing In its present condition, ordinary wear and tear excepted. The HVAC, plumbing, elevators, loading doors and electrical systems shall be In good operating order and condition at the time of Closing.

(d) Compliance. Seller has no knowledge of any aspect or condition of the Property which violates applicable laws, or of any unfulfilled order or directive of any applicable governmental agency or casualty insurance company requiring any investigation, remediation, repair, maintenance or improvement be performed on the Property.

(e) Changes in Agreements. Prior to the Closing, Seller will not violate or modify any Existing Lease or Other Agreement, or create any new leases or other agreements affecting the Property, without Buyers written approval, which approval will not be unreasonably withheld.

(f) Possessory Rights. Seller has no knowledge that anyone will, at the Closing, have any right to possession of the Property, except as disclosed by this Agreement or otherwise in writing to Buyer.

(g) Mechanics' Liens. There are no unsatisfied mechanics' or materialmens' lien rights concerning the Property.

(h) Actions, Suits or Proceedings. Seller has no knowledge of any actions, suits or proceedings pending or threatened before any commission, board, bureau, agency, arbitrator, court or tribunal that would affect the Property or the right to occupy or utilize same.

(i) Notice of Changes. Seller will promptly notify Buyer in writing of any Material Change (see paragraph 9.1(n)) affecting the Property that becomes known to Seller prior to the Closing.

(j) No Tenant Bankruptcy Proceedings. Seller has no notice or knowledge that any tenant of the Property is the subject of a bankruptcy or insolvency proceeding.

(l) No Seller Bankruptcy Proceedings. Seller is not the subject of a bankruptcy, insolvency or probate proceeding.

(m) Personal Property. Seller has no knowledge that anyone will, at the Closing, have any right to possession of any personal property included in the Purchase Price nor knowledge of any liens or encumbrances affecting such personal property, except as disclosed by this Agreement or otherwise in writing to Buyer.

Seller Is also making those Additional Representations and Warranties set forth in part B of the Additional Provisions attached hereto. To the extent the provisions of the Additional Provisions attached hereto conflict with the remainder of this paragraph 12.1, the provisions of the Additional Provisions shall control.

12.2 Buyer hereby acknowledges that, except as otherwise stated in this Agreement, Buyer is purchasing the Property in its existing condition and will, by the time called for herein, make or have waived all inspections of the Property Buyer believes are necessary to protect its own interest in, and its contemplated use of, the Property. The Parties acknowledge that, except as otherwise stated in this Agreement, no representations, inducements, promises, agreements, assurances, oral or written, concerning the Property, or any aspect of the occupational safety and health laws, Hazardous Substance laws, or any other act, ordinance or law, have been made by either Party or Brokers, or relied upon by either Party hereto.

12.3 In the event that Buyer learns that a Seller representation or warranty might be untrue prior to the Closing, and Buyer elects to purchase the Property anyway then, and in that event, Buyer waives any right that it may have to bring an action or proceeding against Seller or Brokers regarding said representation or warranty.

12.4 Any environmental reports, soils reports, surveys, and other similar documents which were prepared by third party consultants and provided to

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/s/ DW

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Buyer by Seller or Seller's representatives have been delivered as an accommodation to Buyer and without any representation or warranty as to the sufficiency, accuracy, completeness, and/or validity of said documents, all of

which Buyer relies on at its own risk. Seller believes said documents to be accurate, but Buyer is advised to retain appropriate consultants to review said documents and investigate the Property.

13. POSSESSION. Possession of the Property shall be given to Buyer at the Closing.

14. BUYERS ENTRY.

At any time during the Escrow period, Buyer, and its agents and representatives, shall have the right at reasonable times and subject to rights of tenants, to enter upon the Property for the purpose of making inspections and tests specified in this Agreement. No destructive testing shall be conducted, however, without Sellers prior approval which shall not be unreasonably withheld. Following any such entry or work, unless otherwise directed in writing by Seller, Buyer shall return the Property to the condition it was in prior to such entry or work, including the recompaction or removal of any disrupted soil or material as Seller may reasonably direct. All such inspections and tests and any other work conducted or materials furnished with respect to the Property by or for Buyer shall be paid for by Buyer as and when due and Buyer shall indemnify, defend, protect and hold harmless Seller and the Property of and from any and all claims, liabilities, losses, expenses (Including reasonable attorneys' fees), damages, including those for injury to person or property, arising out of or relating to any such work or materials or the acts or omissions of Buyer, its agents or employees in connection therewith.

15. FURTHER DOCUMENTS AND ASSURANCES.

The Parties shall each, diligently and in good faith, undertake all actions and procedures reasonably required to place the Escrow in condition for Closing as and when required by this Agreement. The Parties agree to provide all further information, and to execute and deliver all further documents, reasonably required by Escrow Holder or the Title Company.

16. ATTORNEYS' FEES.

If any Party brings an action or proceeding (including arbitration) Involving the Property, to enforce the terms hereof, or to declare rights hereunder, the Prevailing Party (as hereafter defined) In any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term "Prevailing Party" shall include, without limitation, a Party who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party of its claim or defense. The attorneys' fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. 17. PRIOR AGREEMENTS/AMENDMENTS.

17.1 This Agreement supersedes any and all prior agreements between Seller and Buyer regarding the Property other than the lease

17.2 Amendments to this Agreement are effective only if made in writing and executed by Buyer and Seller.

19. NOTICES.

19.1 Whenever any Party or Escrow Holder herein shall desire to give or serve any notice, demand, request, approval, disapproval or other communication, each such communication shall be in writing and shall be delivered personally, by messenger or by mail, postage prepaid, to the address set forth in this Agreement or by facsimile transmission.

19.2 Service of any such communication shall be deemed made on the date of actual receipt if personally delivered. Any such communication sent by regular mail shall be deemed given 48 hours after the same is mailed. Communications sent by United States Express Mail or overnight courier that

guarantee next day delivery shall be deemed delivered 24 hours after delivery of the same to the Postal Service or courier. Communications transmitted by facsimile transmission shall be deemed delivered upon telephonic confirmation of receipt (confirmation report from fax machine is sufficient), provided a copy is also delivered via delivery or mail. If such communication is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

19.3 Any Party hereto may from time to time, by notice in writing, designate a different address to which, or a different person or additional persons to whom, all communications are thereafter to be made.

20. DURATION OF OFFER.

20.1 If this offer is not accepted by Seller on or before 5:00 P.M. according to the time standard applicable to the city of Newport Beach California on the date of _____ it shall be deemed automatically revoked.

20.2 The acceptance of this offer, or of any subsequent counteroffer hereto, that creates an agreement between the Parties as described in paragraph 1.2, shall be deemed made upon delivery to the other Party herein of a duly executed writing unconditionally accepting the last outstanding offer or counteroffer.

/s/ Illegible

Initials

/s/ PP

/s/ DW

Initials

23. MISCELLANEOUS.

23.1 BINDING EFFECT. This Agreement shall be binding on the Parties without regard to whether or not paragraphs 21 and 22 are initialed by both of the Parties. Paragraphs 21 and 22 are each incorporated into this Agreement only if initialed by both Parties at the time that the Agreement is executed.

23.2 APPLICABLE LAW. This Agreement shall be governed by, and paragraph 22.3 is amended to refer to, the laws of the state in which the Property is located.

23.3 TIME OF ESSENCE. Time is of the essence of this Agreement.

23.4 COUNTERPARTS. This Agreement may be executed by Buyer and Seller in counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument. Escrow Holder, after verifying that the counterparts are identical except for the signatures, is authorized and instructed to combine the signed signature pages on one of the counterparts, which shall then constitute the Agreement.

23.5 WAIVER OF JURY TRIAL. The Parties hereby waive their respective rights to trial by jury in any action or proceeding involving the Property or arising out of this Agreement.

24. DISCLOSURES REGARDING THE NATURE OF A REAL ESTATE AGENCY RELATIONSHIP.

24.1 The Parties agree that their relationship(s) with the Brokers shall be governed by the principles set forth in the applicable sections of the California Civil Code, as summarized in paragraph 24.2 as well as by the terms of the Broker Agreements.

24.2 When entering into a discussion with a real estate agent regarding a real estate transaction, a Buyer or Seller should from the outset understand what type of agency relationship or representation it has with the agent or agents in the transaction. Buyer and Seller acknowledge being advised by the Brokers in this transaction, as follows:

(a) Seller's Agent. A Seller's agent under a listing agreement with the Seller acts as the agent for the Seller only. A Seller's agent or subagent has the following affirmative obligations: (1) To the Seller. A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Seller. (2) To the Buyer and the Seller. a. Diligent exercise of reasonable skills and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

/s/ Illegible

Initials

/s/ PP

/s/ DW

Initials

(b) Buyer's Agent. A selling agent can, with a Buyer's consent, agree to act as agent for the Buyer only. In these situations, the agent is not the Seller's agent, even if by agreement the agent may receive compensation for services rendered either in full or in part from the Seller. An agent acting only for a Buyer has the following affirmative obligations: (1) To the Buyer: A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Buyer. (2) To the Buyer and the Seller: a. Diligent exercise of reasonable skills and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the Property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

(c) Agent Representing Both Seller and Buyer. A real estate agent, either acting directly or through one or more associate licenses, can legally be the agent of both the Seller and the Buyer in a transaction, but only with the knowledge and consent of both the Seller and the Buyer. (1) In a dual agency situation, the agent has the following affirmative obligations to both the Seller and the Buyer. a. A fiduciary duty of utmost care, integrity, honesty and loyalty in the dealings with either Seller or the Buyer. b. Other duties to the Seller and the Buyer as stated above in their respective sections (a) or (b) of this paragraph 24.2. (2) In representing both Seller and Buyer, the agent may not without the express permission of the respective Party, disclose to the other Party that the Seller will accept a price less than the listing price or that the Buyer will pay a price greater than the price offered. (3) The above duties of the agent in a real estate transaction do not relieve a Seller or Buyer from the responsibility to protect their own interests. Buyer and Seller should carefully read all agreements to assure that they adequately express their understanding of the transaction. A real estate agent is a person qualified to advise about real estate. If legal or tax advice is desired, consult a competent professional.

(d) Further Disclosures. Throughout this transaction Buyer and Seller may receive more than one disclosure, depending upon the number of agents assisting in the transaction. Buyer and Seller should each read its contents

each time it is presented, considering the relationship between them and the real estate agent in this transaction and that disclosure.

18. CONSTRUCTION OF AGREEMENT. In construing this Agreement, all headings and titles are for the convenience of the Parties only and shall not be considered a part of this Agreement. Whenever required by the context, the singular shall include the plural and vice versa. Unless otherwise specifically indicated to the contrary, the word "days" as used in this Agreement shall mean and refer to calendar days. This Agreement shall not be construed as if prepared by one of the parties, but rather according to Its fair meaning as a whole, as if both Parties had prepared it.

19. ADDITIONAL PROVISIONS: Additional provisions of this offer, if any, are as follows or are attached hereto by an addendum consisting of paragraphs through . (If there are no additional provisions write "NONE".) SEE ADDENDUM and ADDITIONAL PROVISIONS FOR PURCHASE AND SALE AGREEMENT

ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY NY BROKER AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS AGREEMENT OR THE TRANSACTION O WHICH IT RELATES. THE PARTIES ARE URGED TO:

1. SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS AGREEMENT.

2. RETAIN APPROPRIATE CONSULTANTS TO REVIEW AND INVESTIGATE THE CONDITION OF THE PROPERTY. SAID INVESTIGATION SHOULD INCLUDE BUT NOT BE LIMITED TO: THE POSSIBLE PRESENCE OF HAZARDOUS SUBSTANCES, THE ZONING OF THE PROPERTY, THE INTEGRITY AND CONDITION OF ANY STRUCTURES AND OPERATING SYSTEMS, AND THE SUITABILITY OF THE PROPERTY FOR BUYER'S INTENDED USE.

WARNING: IF THE PROPERTY IS LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THIS AGREEMENT MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PROPERTY IS LOCATED.

NOTE:

1. THIS FORM IS NOT FOR USE IN CONNECTION WITH THE SALE OF RESIDENTIAL PROPERTY.

2. IF THE BUYER IS A CORPORATION, IT IS RECOMMENDED THAT THIS AGREEMENT BE SIGNED BY TWO CORPORATE OFFICERS. THE UNDERSIGNED BUYER OFFERS AND AGREES TO BUY THE PROPERTY ON THE TERMS AND CONDITIONS STATED AND ACKNOWLEDGES RECEIPT OF A COPY HEREOF.

BUYER:
Skechers USA, Inc. and/or Assignee

/s/ Illegible

/s/ PP

/s/ DW

Initials

Initials

By: _____
Name Printed: _____
Title: _____

By: /s/ DAVID WEINBERG
Name Printed: David Weinberg
Title: Chief Financial Officer

By: /s/ PHILIP PACCIONE
Name Printed: Philip Paccione

1) EXPECTED CLOSING DATE; TITLE COMPANY:

Notwithstanding anything in Section 1 of the Agreement to the contrary, the Expected Closing Date shall be on or before December 22, 2000. Seller shall have the right to extend the Expected Closing Date until on or before January 15, 2001 by notice to Buyer and Escrow Holder prior to December 22, 2000. Wherever in the Agreement reference is made to "First American Title Company" such reference shall be changed to "Stewart Title Company".

2) DEPOSITS (CONTINUED):

Buyer's deposit pursuant to this Paragraph 4 shall be refundable until the satisfaction or waiver of all the Buyer's contingencies contained herein or in the event Seller fails to close the Escrow contemplated herein. Unless Buyer has disapproved a Buyer's contingency on or before the earlier of (i) the time specified in the Agreement with respect to particular contingencies and (ii) November 30, 2000, then on December 1, 2000 Buyer's deposit shall be released to Seller without the need for further instruction from Buyer or Seller and upon such release Buyer's deposit shall become non-refundable except in the event Seller fails to close the Escrow contemplated herein.

5) NEW LOAN CONTINGENCY PERIOD:

The language in paragraph 5.2 of the Agreement which states "within 30 days following the Date of Agreement" shall be replaced by the language "on or before November 30, 2000".

27) BROKERAGE FEES:

Seller agrees that any fees owing from Seller to the Brokers pursuant to separate agreements between Seller and such Brokers shall be paid at Closing through Escrow.

28) REMOVAL FROM MARKET:

From the execution hereof Seller shall not market the Property For Sale but shall reserve the right to receive unsolicited back up offers to purchase during Buyer's contingency period. Upon removal of all Buyer's contingencies and the release of the Buyer's Deposit to Seller, Seller shall remove the Property from the market.

29) AMERICANS WITH DISABILITY ACT (ADA) NOTIFICATION:

Seller and Buyer each acknowledge receipt of Exhibit "A" attached hereto and made a part hereof.

30) ADDITIONAL DEPOSITS:

In addition to the Purchase Price, Buyer shall deposit into Escrow prior to Closing the following: (A) any amounts then due and payable pursuant to the Lease from Buyer (as Lessee under the Lease) to Seller (as Lessor under the Lease) and (B) the amount of Supplemental Taxes due with respect to the Property and not paid prior to Closing. If prior to Closing, a Supplemental Tax Bill has been received and such Supplemental Tax Bill has not been paid by Buyer (as Lessee under the

Lease), then Buyer shall deposit in Escrow the amount of such Supplemental Tax Bill and Escrow Holder shall pay such Supplemental Tax Bill at Closing. If at Closing, a Supplemental Tax Bill has not been received by Escrow Holder, Buyer shall deposit the sum of \$35,000 as an estimate of such

Supplemental Taxes. Escrow Holder shall retain such deposit until a Supplemental Tax Bill has been received. When such Supplemental Tax Bill has been received, Escrow Holder shall use such deposit to pay the amount of such Supplemental Tax Bill and remit any excess to Buyer. If the deposit is insufficient to pay the full amount of the Supplemental Tax Bill, Escrow Holder shall use the deposit to cover as much of the Supplemental Tax Bill as possible and Buyer, within 10 days of notice from Escrow Holder, shall deposit such additional amount as is necessary to fully pay such Supplemental Tax Bill. In any event, Buyer agrees that Buyer is solely responsible for all taxes assessed with respect to the Property for periods after July 15, 2000.

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ADDITIONAL PROVISIONS FOR PURCHASE AND SALE AGREEMENT
1670 CHAMPAGNE AVENUE
ONTARIO, CALIFORNIA

ADDITIONAL CONDITIONS PRECEDENT:

(1) Property Documents. Buyer acknowledges that Seller has delivered, or made available, to Buyer copies of all permits, soils reports, licenses, maintenance contracts, utility contracts, operating contracts, management contracts, service contracts, and other contracts pertaining to the Property, together with any amendments or modifications (collectively, Property Documents). Buyer has reviewed each Property Document that Buyer has deemed appropriate in Buyer's exercise of its due diligence and Buyer's decision to purchase the Property is based upon Buyer's review of such Property Documents and Buyer's independent evaluation of the Property. On or before the Close of Escrow, Seller shall assign to Buyer all of Seller's rights and remedies under the Property Documents, to the extent assignable, pursuant to an assignment of contracts, warranties, guarantees, and other intangible property (Assignment of Contracts) in form and substance satisfactory to Buyer. At Buyer's request, Seller shall obtain the consent to assignment of any other parties to the Property Documents that Buyer specifies within five (5)[10] business days of the execution hereof. At Buyer's request, Seller shall terminate the Property Documents that Buyer specifies by delivering notices to the other parties under the Property Documents in sufficient time to terminate the Property Documents prior to the Close of Escrow.

(2) Architect's Certificate. Seller has delivered to Buyer a certification by HPA, Inc. (the "Architect's Certificate") confirming the total square footage of the Base Building (as defined in the Lease described in Section 2.3), that all improvements have been designed and constructed in accordance with applicable building codes, which shall be prepared at Seller's expense. Buyer has approved the Architect's Certificate.

(3) Plans and Specifications. Seller has delivered to Buyer a copy of the plans and specifications for the Improvements, together with all amendments thereto (collectively, "Plans").

(4) Certificates of Occupancy. Seller has delivered to Buyer copies of all certificates of occupancy with regard to the improvements and the Property, which are required for the use and occupancy of the Property, as presently constructed. On or before the Closing, Seller shall deliver originals of the final or permanent certificates of occupancy to Buyer.

(5) Buyer has occupied the Property and the Base Building since the commencement of the Lease. On Closing, except as otherwise specifically set forth in this Agreement, Buyer shall have accepted the Property and the Base Building in the then condition of the Property and the Base Building.

ADDITIONAL REPRESENTATIONS AND WARRANTIES:

Seller represents and warrants to Buyer that as of the date of this Agreement and as of the Close of Escrow:

(a) Disclosure. To Seller's actual knowledge, Seller has disclosed to Buyer, or made available for Buyer's review, all information concerning the Property to which Seller has access.

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(b) Condition of Property. To Seller's Actual Knowledge, the Property (including, without limitation the Base Building) is in good condition and free from any defects, including without limitation, erosion, drainage or soil problems, physical, mechanical (including, without limitation, any loading door), plumbing, fire sprinkler, lighting, heating, ventilating, air conditioning, electrical, parking lot pavement or utility system defects, or defects in any similar elements (except to the extent any of the foregoing have been constructed by Buyer). The duration of the foregoing warranty, notwithstanding anything in this Agreement to the contrary, shall be limited as follows: If, after the Commencement Date under the Lease, Buyer does not give Seller written notice of any non-compliance with this warranty within: (i) five (5) years as to the roof and the structural portion of the roof, (ii) two (2) years as to the slab and concrete walls, and (iii) one (1) year as to the remaining systems and other elements of the Base Building, correction of such non-compliance shall be the obligation of Buyer at Buyer's sole cost and expense; provided, however, that Buyer's sole obligation with respect to the items specified in subsections (i) - (iii) of this sentence shall not commence unless and until Seller has given to Buyer notice that as to such applicable subsection, Seller's obligations are ending or have ended and Buyer's obligations are beginning or have begun. Seller's obligations with respect to any warranties given to Buyer pursuant to this Section (b) are conditioned upon the following: (a) Buyer shall have given notice to Seller of any claims on such warranties promptly and in no event not later than twenty (20) days after the discovery of the condition giving rise to such claim, and (b) except in connection with an emergency that threatens property or safety, if Buyer or any person other than a person selected by Seller repairs or otherwise attempts to correct a condition giving rise to the claim, Seller shall be relieved of the warranty obligations related to such condition repaired or corrected by such other person. Any repairs which are made at the direction of Seller shall be performed by contractors or subcontractors reasonably acceptable to Buyer.

(c) Special Assessments or Condemnation. To Seller's Actual Knowledge, there are not presently pending (i) any special assessments, except those shown as Exceptions, or (ii) condemnation actions against the Property or any part. Moreover, Seller has not received notice of any special assessments or condemnation actions being contemplated. To Seller's Actual Knowledge, there are no existing, proposed, or contemplated eminent domain proceedings that would affect the Property. Moreover, Seller has not received any notice of existing, proposed, or contemplated eminent domain proceedings that would affect the Property.

(d) Encroachment/Streets. To Seller's Actual Knowledge,

(i) Encroachments. Except as shown on the survey provided in accordance with Section 9.1(g), there are no encroachments on the Property from adjoining property, and the Property does not encroach on adjoining property, easements, or streets.

(ii) Streets. There are no existing, proposed, or contemplated plans to widen, modify, or realign any street or highway which affects the contemplated size of, use of, or set-backs on the Property and the improvements.

(e) Compliance with Laws. To Seller's Actual Knowledge, all laws, ordinances, rules, and regulations of any government or agency, body, or subdivision thereof, bearing on the construction, operation, ownership, or use of the Property, have been complied with by Seller.

(f) Utilities. All water, sewer, electric, telephone, and drainage facilities, and all other utilities required by law or for the normal operation of the Property are installed to the property

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lines of the Property, have been connected to the Base Building, are connected with valid permits, and, to Seller's Actual Knowledge, are in good working order, and are adequate to service the Property.

(g) Permits; Compliance with Applicable Law. Seller has obtained all appropriate licenses, permits, easements, and rights of way, including proofs of dedication, which are required to use and operate the Property, and the improvements comply with all applicable laws, covenants or restrictions of record, building codes, regulations and ordinances in effect at the Closing. Said warranty does not apply to the use to which Buyer will put the Property (unless otherwise agreed to by Buyer and Seller) or to any alterations made or to be made by Buyer. In addition, there are no commitments or agreements, to which Seller is a party, affecting the Property which have not been disclosed by Seller to Buyer in writing.

(h) State of Facts. To Seller's Actual Knowledge, Seller is not in default of Seller's obligations or liabilities pertaining to the Property; nor are there facts, circumstances, conditions, or events which, after notice or lapse of time, would constitute default. Seller has not received notice or information that any party to any document affecting the Property considers a breach or default to have occurred; nor has Seller any reason to believe that there is likely to be a default under any of the documents.

(i) Consents and Releases. To Seller's Actual Knowledge, Seller has obtained all required consents, releases, and permissions to convey good and marketable title to Buyer.

(j) Litigation. Seller is not involved in or aware of pending or threatened litigation which could affect the Property. Furthermore, to Seller's Actual Knowledge, there are no proceedings pending or threatened against Seller before any court or administrative agency relating to the Property which may adversely affect the Property now or in the future, or which may adversely affect Seller's ability to fulfill all obligations under this Agreement and the related documents.

(k) Authority. This Agreement and all other documents delivered prior to or at the Closing (i) have been duly authorized, executed, and delivered by Seller; (ii) are binding obligations of Seller; (iii) are collectively sufficient to transfer all of Seller's rights to the Property; and (iv) do not violate the provisions of any agreement to which Seller is a party or which affects the Property, and do not violate Seller's partnership agreement, subject, however, to applicable bankruptcy, insolvency, and other similar laws affecting the enforcement of creditors' rights generally, and to principles of equitable remedies. Seller further represents that it is a limited partnership organized and existing under the laws of the State of California.

(l) Bankruptcy. No filing or petition under the United States Bankruptcy Law or any insolvency laws, or any laws for composition of indebtedness or for the reorganization of debtors has been filed with regard to Seller or any general partner of Seller.

(m) Foreign Investment Real Property Tax Act. Seller is not a foreign person within the meaning of 42 USCS Section 1445(f)(3).

(n) Toxic or Hazardous Waste.

(i) To Seller's Actual Knowledge, the Property is free from Hazardous Substances and is not in violation of any Environmental Laws.

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(ii) To Seller's Actual Knowledge, there are no buried or partially buried storage tanks located on the Property.

(iii) Seller has received no notice, warning, notice of violation, administrative complaint, judicial complaint, or other formal or informal notice alleging that conditions on the Property are or have been in violation of any law governing the storage, use, transportation or release of Hazardous Substances (hereinafter, "Environmental Laws"), or informing Seller that the Property is subject to investigation or inquiry regarding Hazardous Substances on the Property or the potential violation of any Environmental Laws.

(iv) To Seller's Actual Knowledge, there is no monitoring program required by the Environmental Protection Agency (EPA) or any similar state agency concerning the Property.

(v) To Seller's Actual Knowledge, no toxic or hazardous chemicals, waste, or substances of any kind have ever been spilled, disposed of, or stored on, under, or at the Property, whether by accident, burying, drainage, or storage in containers, tanks or holding areas, or by any other means.

(vi) To Seller's Actual Knowledge, the Property has never been used as a dump or landfill.

(o) Special Studies Zone. The Property is not within a special studies zone under the Alquist-Priolo Geologic Hazard Act [Pub Res C Section Sections 2621.9 et seq.].

(p) Notice of Proceedings. Seller shall immediately notify Buyer of any lawsuits, condemnation proceedings, rezoning, or other governmental order or action, or any threat thereof, known to Seller, which might affect the Property or any interest of Buyer.

(q) Seller's Actual Knowledge. When used herein, "Seller's Actual Knowledge", "Seller's Knowledge" shall refer to the actual, but not the constructive or impute, knowledge of Donald Gilmour, without investigation.

INDEMNITIES

(1) Seller and its successors and assigns shall indemnify, defend, reimburse and hold Buyer, its employees and lenders, harmless from and against any and all damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees and all environmental damages, including the cost of remediation, arising out of or involving any Hazardous Substances on the Property prior to the Commencement Date under the Lease or which are caused by the gross negligence or willful misconduct of Seller, its agents or employees. Seller's obligations shall include, but not be limited to, the cost of investigation, removal, remediation, restoration and/or abatement. No termination, cancellation or release agreement entered into by Seller and Buyer shall release Seller from its obligations under this Agreement with respect to Hazardous Substances, unless specifically so agreed by Buyer in writing at the time of such agreement. The provisions of the this Section (1) shall survive the Closing.

(2) Seller shall indemnify, defend, and hold Buyer harmless from all liability, loss, or claim

for damages, including costs and attorney fees, arising from (a) breach of Seller's covenants under this Agreement or (b) Seller's false representations in this Agreement. The provisions of this Section shall survive the Closing as follows: (i) with respect to those matters described in Additional Representations and Warranties Section (b) above, as set forth in said Section (b), (ii) with respect to those matters described in Indemnities Section (1) above relating to Hazardous Substances, as set forth in said Section (1), and (iii) with respect to all other matters [what else is there?], for a period of one (1) year following the Commencement Date under the Lease.

MEDIATION PROVISION

MEDIATION OF DISPUTES: SELLER AND BUYER AGREE TO MEDIATE ANY DISPUTE OR CLAIM BETWEEN THEM ARISING OUT OF THIS AGREEMENT BEFORE RESORTING TO ARBITRATION OR COURT ACTION.

Mediation is a process in which parties attempt to resolve a dispute by submitting it to an impartial, neutral mediator who is authorized to facilitate the resolution of the dispute but who is not empowered to impose a settlement on the parties. Mediation fees, if any, shall be divided equally among the parties involved. Before the mediation begins, the parties agree to sign a document limiting the admissibility in arbitration or any civil action of anything said, any admission made, and any documents prepared, in the course of the mediation, consistent with Evidence Code Section 1119.

IF ANY PARTY COMMENCES AN ARBITRATION OR COURT ACTION BASED ON A DISPUTE OR CLAIM TO WHICH THIS PARAGRAPH APPLIES WITHOUT FIRST ATTEMPTING TO RESOLVE THE MATTER THROUGH MEDIATION, THEN IN THE DISCRETION OF THE ARBITRATOR(S) OR JUDGE, THAT PARTY SHALL NOT BE ENTITLED TO RECOVER ATTORNEYS' FEES EVEN IF THEY WOULD OTHERWISE BE AVAILABLE TO THAT PARTY IN ANY SUCH ARBITRATION OR COURT ACTION.

However, the filing of a judicial action to enable the recording of a notice of pending action, for order of attachment, receivership, injunction, or other provisional remedies, shall not in itself constitute a loss of the right to recover attorneys' fees under this provision. The following matters are excluded from the requirement of mediation hereunder: an unlawful detainer action, the filing or enforcement of a mechanic's lien, and any matter which is within the jurisdiction of a probate court

/s/ Illegible

Seller's Initials

/s/ PP

Buyer's Initials

AMENDMENT OF LEASE

THIS AMENDMENT OF LEASE (hereinafter this "Amendment") dated for identification purposes only, December 20, 2000, is entered into by and between YALE INVESTMENTS, LLC, a Delaware limited liability company ("Lessor") and SKECHERS U.S.A., Inc., a Delaware corporation ("Lessee"). This Amendment is entered into with respect to the following facts:

A. Lessee is a party to a certain Industrial/Commercial Single-Tenant Lease Net, dated November 15, 1999, in which Champagne Building Group, LP, a California limited partnership ("Champagne Building Group") is named as original lessor, covering certain premises (the "Premises") commonly known as 1670 S. Champagne Avenue, Ontario, California (the "Lease").

B. Lessor intends to acquire fee title to the Premises described by the Lease from Champagne Building Group, and Champagne Building Group has assigned its interest in the Lease to Lessor.

C. This Amendment shall be effective only if the Premises are acquired by Lessor.

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which is hereby acknowledged, it is agreed as follows:

1. TERM. The first sentence of Paragraph 1.3 of the Lease is hereby amended and restated as follows:

"1.3 Term: Sixteen (16) years and Zero (0) months ("Original Term") commencing upon July 15, 2000 (the "Commencement Date") and ending sixteen (16) years after the Commencement Date (the "Expiration Date")."

2. EARLY POSSESSION. Paragraph 1.4 of the Lease is hereby amended and restated as follows:

["Intentionally Deleted."]

3. REAL ESTATE BROKERS. Paragraph 1.10 of the Lease is hereby amended and restated as follows:

"1.10 Real Estate Brokers: (See also Paragraph 15)

(a) Representation: Neither Lessor nor Lessee has been represented by a broker in this transaction; accordingly, no brokerage relationships exist and as of the date of execution of this Amendment by both Parties, no brokers are owed any fees."

4. CONDITION. The fourth sentence of Paragraph 2.2 of the Lease is hereby amended and restated as follows:

"If, after the Commencement Date, Lessee does not give Lessor written notice of any non-compliance with this warranty within: (i) five (5) years as to the roof and the structural portion of the roof, (ii) two (2) years as to the slab and concrete walls, and (iii) one (1) year as to the remaining systems and other elements of the Building, correction of such non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense."

5. COMPLIANCE. Paragraph 2.3(a) of the Lease is hereby amended and restated as follows:

"(a) Subject to Paragraph 2.3(c) below, if such Capital Expenditures are required as a result of the specific and unique use of the Premises by Lessee as compared with uses by tenants in general, Lessee shall be fully responsible for the cost thereof."

6. EARLY POSSESSION. Paragraph 3.2 of the Lease is hereby amended and restated as follows:

"[Intentionally Deleted.]"

7. USE. The third sentence of Paragraph 6.1 of the Lease is hereby amended and restated as follows:

"Lessor shall not unreasonably withhold or delay its consent to any written request for a modification of the Agreed Use, so long as the same will not impair the structural integrity of the improvements on the Premises or the mechanical or electrical systems therein, is not significantly more burdensome to the Premises, and the modification of the Agreed Use will not be likely to involve the use of Hazardous Substances on or about the property in such a manner as to create a "Reportable Use" pursuant to Section 6.2 or violate any existing laws."

The fourth sentence of Paragraph 6.1 of the Lease is hereby amended and restated as follows:

"If Lessor elects to withhold consent, Lessor shall within thirty (30) business days after such request give written notification of same, which notice shall include an explanation of Lessor's objections to the change in use."

8. HAZARDOUS SUBSTANCES. Paragraph 6.2(a) is hereby amended and restated to delete the last sentence, which reads as follows:

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"In addition, Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage, contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before Lease expiration or termination) of protective modifications (such as concrete encasements) and/or increasing the Security Deposit."

Paragraph 6.2(d) is hereby amended and restated as follows:

"(d) LESSEE INDEMNIFICATION. Lessee shall indemnify, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties and attorneys' and consultants' fees and all environmental damages, including the cost of remediation, arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee, or any third party (provided, however, that Lessor shall have no liability under this Lease with respect to underground migration of any Hazardous Substance under the Premises from adjacent properties occurring before or after the Commencement Date). Lessee's obligations shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee or Lessor, and the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease

with respect to hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement."

9. LESSEE'S COMPLIANCE WITH APPLICABLE REQUIREMENTS. The first sentence of paragraph 6.3 is hereby amended and restated as follows:

"Except as otherwise provided in this Lease (and, in particular, Paragraphs 2.2 and 2.3 hereof), Lessee shall, at Lessee's sole expense, fully and diligently and in a timely manner, materially comply with all Applicable Requirements, and the requirements of any applicable fire insurance underwriter or rating bureau, without regard to whether said requirements are now in effect or become effective after the Commencement Date."

10. LIABILITY LIMITS. The second sentence of Paragraph 8.2(a) of the Lease is hereby amended and restated as follows:

"Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than \$5,000,000 per occurrence with an "ADDITIONAL INSURED-MANAGERS OR LESSORS OF PREMISES ENDORSEMENT" and contain the "AMENDMENT OF THE POLLUTION EXCLUSION

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ENDORSEMENT" for damage caused by heat, smoke or fumes from a hostile fire."

11. FLOOD AND EARTHQUAKE INSURANCE. The fourth sentence of Paragraph 8.3 of the Lease is hereby amended and restated as follows:

"If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake damage unless required by a Lender in its capacity as a lender or as an owner following foreclosure, or by a third party owner following foreclosure), including coverage for debris removal and the enforcement of any Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of any portion of the Premises as the result of a covered loss."

12. WORKER'S COMPENSATION. Paragraph 8.4 of the Lease is hereby amended and restated to add a new paragraph (c) as follows:

"(c) WORKER'S COMPENSATION. Lessee shall obtain and carry all statutory workers' compensation insurance with respect to any work on or about the Premises, covering all of Lessee's employees working on the Premises and all employees of Lessee's property manager and vendors providing service on the Premises. Lessee shall provide Lessor with written evidence that such insurance is in force."

The existing paragraph (c) shall now be paragraph (d); no other change to the language of former paragraph (c) shall be made, however.

13. INSURANCE PROVISIONS. Paragraph 8.5 of the Lease is hereby amended and restated as follows:

"Insurance required herein shall be by companies duly licensed or admitted to transact business in the style where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least A- or better, with a minimum Class VIII Rating, as set forth in the most current issue of "Best's Insurance Guide," or such other rating as may be required by a Lender. Lessee shall not do or permit to be done anything which invalidates the required insurance policies. Lessee shall, as of the Commencement Date, deliver to Lessor certified copies of policies of such insurance or certificates evidencing

the existence and amounts of the required insurance. No such policy shall be cancelable or subject to modification except after thirty (30) days prior written notice to Lessor and Lender. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor and the Lender with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. Such policies

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shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less, and the Lender must be named as an additional insured. If either Party shall fail to procure and maintain the insurance required to be carried by it, the other Party may, but shall not be required to, procure and maintain the same, provided, however, that any Party that obtains insurance on behalf of another Party shall be reimbursed within ten (10) days of demand for payment."

14. EXEMPTION OF LESSOR FROM LIABILITY. The first two sentences of Paragraph 8.8 of the Lease are hereby amended and restated as follows:

"Subject to the provisions of Section 6 of the Work Letter, Lessor shall not be liable for injury, damage or other consequential damages to the person or goods, wares, merchandise of other property of Lessee, Lessee'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, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, utility blackouts, or for any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the Building of which the Premises are a part, or from other sources or places. Lessor shall not be liable for any damages or consequential damages arising from any act or neglect of any other tenant of Lessor."

15. DAMAGE OR DESTRUCTION: DEFINITIONS. Article 9 of the Lease is hereby amended and restated to add a new Paragraph 9.9 as follows:

"9.9 LOAN DOCUMENTS ARE CONTROLLING. Notwithstanding any of the foregoing language contained in Paragraphs 9.1 through 9.8, to the extent that any of the terms of this Lease relating to the matters covered in paragraphs 9.1 through 9.8 conflict with a deed of trust in favor of a Lender, the terms and provisions of the Deed of Trust shall control both prior to and, at the sole election of Lender (or a third party purchaser following foreclosure), subsequent to any foreclosure or other transfer in lieu of foreclosure. In addition, if Lessor rebuilds pursuant to the provisions of a Lender's deed of trust, the Lease shall not be terminated pursuant to Paragraph 9.4."

16. TAXES. The last sentence of Paragraph 10.2(a) of the Lease is hereby amended and restated as follows:

"If Lessee shall fail to pay any required Real Property Taxes, Lessor shall have the right to pay the same, and Lessee shall reimburse Lessor therefore within ten (10) days of its demand."

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The first sentence of Paragraph 10.2(b) of the Lease is hereby amended and restated as follows:

"In the event Lessee incurs a late charge on any Rent payment, Lessor may, at Lessor's option, next estimate the current Real Property Taxes and require that such taxes be paid in advance to Lessor by Lessee, either: (i) in a lump sum amount equal to the installment due, at least twenty (20) days prior to the applicable delinquency date, or (ii) monthly in advance with the payment of the Base Rent."

The fourth sentence of Paragraph 10.2(b) of the Lease is hereby amended and restated as follows:

"If the amount collected by Lessor is insufficient to pay such Real property Taxes when due, Lessee shall pay Lessor, within ten (10) days of demand, such additional sums as are necessary to pay such obligations."

17. ASSIGNMENT. Paragraph 12.1(a) of the Lease is hereby amended and restated as follows:

"(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, "assign" or "assignment") or sublet all or any part of Lessee's interest in this Lease or the Premises without Lessor's prior written consent, which consent shall not be unreasonably withheld or delayed. In its notice to the Lessor, Lessee must provide certain information, including but not limited to the name of the proposed assignee, sublessee or occupant; the nature of the proposed assignee's, sublessee's or occupant's business to be carried out on the Premises; the terms and provisions of the proposed Assignment or Sublease, and a copy of such documents; and such financial information concerning the proposed assignee, sublessee or occupant and other reasonable information regarding the transaction which Lessor shall have requested following its receipt of Lessee's request for consent. In making its determination as to whether or not to consent to the proposed Assignment or Sublease, Lessor shall be entitled to consider any fact or factor which Lessor reasonably deems relevant to its decision, including but not limited to the following, all of which are hereby agreed to be reasonable factors for Lessor's consideration: the financial strength of the proposed assignee or sublessee (which shall be at least equal to that of Lessee as of the date of execution of this Lease), including the adequacy of its working capital to pay all expenses anticipated in connection with any remodeling of the Premises; the experience of the proposed assignee or sublessee with respect to businesses of the type and size which such assignee or sublessee proposes to conduct in the Premises; the quality and nature of the business and/or services to be conducted in or from the Premises by the proposed assignee or sublessee and in any other locations which it has, as reflected by, among other things, average sales or revenue;

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violation of exclusive use rights previously granted by Lessor to other Lessees of the Premises; the effect of the type of services and business which the proposed assignee or sublessee proposes to conduct in the Premises; diminution or potential diminution of percentage rent, if any, payable pursuant to this Lease as the result of such Assignment or Sublease; the quality of the appearance of the Premises resulting from any remodeling or renovation to be conducted by the proposed assignee or sublessee; whether there then exists any default by Lessee pursuant to this Lease or any non-payment or non-performance by Lessee under this Lease which, with the passage of time and/or the giving of notice, would constitute a default under; any fact or factor upon which Lessor reasonably concludes that the business to be conducted by such assignee or sublessee will not be a financial success in the Premises."

18. EXCESS RENT. Paragraph 12.3(a) of the Lease is hereby amended and restated

to replace the first sentence of Paragraph 12.3(a) with the following language:

"(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach shall occur in the performance of Lessee's obligations, Lessee may collect said Rent. If the Rent payable pursuant to the terms of a sublease exceeds Lessee's obligations under this Lease, Lessor shall be entitled to fifty percent (50%) of the excess amount."

19. REMEDIES. The fourth sentence of Paragraph 13.2(a) of the Lease is hereby amended and restated as follows:

"Efforts by Lessor to mitigate damages caused by Lessee's breach of this Lease shall not waive Lessor's right to recover the balance of damages owing under Paragraph 13."

The first sentence of Paragraph 13.2(b) of the Lease is hereby amended and restated as follows:

"(b) Continue the Lease and Lessee's right to possession and recover Rent as it becomes due, in which event, Lessee may sublet or assign, subject only to reasonable limitations as set forth in Paragraph 12."

Paragraph 13.2 of the Lease is hereby amended and restated to add paragraph (e) as follows:

"(e) No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative (to the extent the same does not result in double recovery for the Lessor) with all other remedies at law or in equity."

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20. CONDEMNATION PROVISIONS. Paragraph 14 of the Lease is hereby amended and restated to include the following language as the final sentence of Paragraph 14:

"Notwithstanding any of the foregoing provisions of Paragraph 14, to the extent the language of Paragraph 14 conflicts with a Lender's rights under a deed of trust, the terms and provisions of the deed of trust shall control prior to foreclosure, and at the Lessor's option, following foreclosure, or other transfer in lieu of a foreclosure."

21. ESTOPPEL CERTIFICATES. The following sentence shall be added as the last sentence in Paragraph 16(a) of the Lease:

"Lessee shall provide Estoppel Certificates and financials directly to the Lender upon the Lender's request."

The first sentence of Paragraph 16(b) of the Lease is hereby amended and restated as follows:

"(b) If the Responding Party shall fail to execute or deliver the Estoppel Certificate within such ten day period, the Requesting Party may execute an Estoppel Certificate stating that: (i) the Lease is in full force and effect without modification except as may be represented by the Requesting Party, (ii) there are no uncured defaults in the Requesting Party's performance, and (iii) if the Lessor is the Requesting Party, not more than one month's Rent has been paid in advance."

22. DEFINITION OF LESSOR. The second and third sentences of Paragraph 17 of the Lease are hereby amended and restated as follows:

"In the event of a transfer of Lessor's title or interest in the Premises or this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit and interest accrued and payable on the Security Deposit to the new Lessor. Except as provided in Paragraph 12, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor."

23. TERMINATION OF OPTION. Paragraph 39.4(c) of the Lease is hereby amended and restated as follows:

"(c) An Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and prior to the commencement of the extended term, (i) Lessee fails to pay Rent for a period of thirty (30) days after such Rent becomes due (without any necessity of Lessor to give notice thereof), (ii) Lessor gives to Lessee three (3) or more notices of separate Default,

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whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease which Breach has not been cured."

24. RENT. The following language is added as Paragraph 51 of the Lease, in lieu of the language which presently reads "[intentionally omitted]":

"51. Cost of Living Increases. Beginning on the eighty-fifth (85th) month and continuing until and including the one hundred ninety-second (192nd) month, the Base Rent shall be calculated as follows:

51.1. On the eighty-fifth (85th), one hundred twenty-first (121st) and one hundred fifty-seventh (157th) months of the term of the lease, the Base Rent shall be adjusted by the change, if any, from the Base Month specified below, in the Consumer Price Index of the Bureau of Labor Statistics of the U.S. Department of Labor for the "CPI W" (Urban Wage Earners and Clerical Workers) Los Angeles-Riverside-Orange County, All Items (1982-1984 = 100), herein referred to as "CPI"

51.2. The monthly rent payable in accordance with paragraph 51.1 shall be calculated as follows: the Base Rent then in effect shall be multiplied by a fraction the numerator of which shall be the CPI of the calendar month two months prior to the month(s) specified in paragraph 51.1 above during which the adjustment is to take effect, and the denominator of which shall be the CPI of the calendar month thirty-six (36) months prior to the month(s) specified in paragraph 51.1 above during which the adjustment is to take effect (the "Base Month"). The sum so calculated shall constitute the new monthly rent hereunder, but in no event shall any such new monthly rent be less than the rent payable for the month immediately preceding the rent adjustment.

51.3. In the event the compilation and/or publication of the CPI shall be transferred to any other governmental department or bureau or agency or shall be discontinued, then the index most nearly the same as the CPI shall be used to make such calculation. In the event that the Parties cannot agree on such alternative index, then the matter shall be submitted for decision to the American Arbitration Association in accordance with the then rules of said Association and the decision of the arbitrators shall be binding upon the parties. The cost of said Arbitration shall be paid equally by the Parties."

25. OPTION TO EXTEND TERM. Paragraphs 52, 52.1 and 52.2 are each hereby amended

and restated as follows:

"[Intentionally Deleted.]"

26. PREMISES TOTAL DESTRUCTION. Paragraph 53 is hereby amended and restated to include the following language as the final sentence of this paragraph:

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"Notwithstanding any of the foregoing provisions of Paragraph 53, to the extent the language of Paragraph 53 conflicts with a Lender's rights under a deed of trust, the terms and provisions of the deed of trust shall control prior to foreclosure, and at the Lessor's option, following foreclosure, or other transfer in lieu of foreclosure."

27. PARTIAL DAMAGE-UNINSURED LOSS. Paragraph 54 is hereby amended and restated to include the following language as the final sentence of this Paragraph:

"Notwithstanding any of the foregoing provisions of Paragraph 54, to the extent the language of Paragraph 54 conflicts with a Lender's rights under a deed of trust, the terms and provisions of the Deed of Trust shall control prior to foreclosure, and at the Lessor's option, following foreclosure, or other transfer in lieu of foreclosure."

28. DAMAGE NEAR END OF TERM. The following language shall be added to paragraph 55 of the Lease:

"Lessee shall only have this right to terminate this Lease pursuant to this provision if Lessee's rental interruption insurance will not be invalidated by such termination. In addition, notwithstanding any of the foregoing provisions of Paragraph 55, to the extent the language of Paragraph 55 conflicts with a lender's rights under a deed of trust, the terms and provisions of the Deed of Trust shall control prior to foreclosure, and at the Lessor's option, following foreclosure, or other transfer in lieu of foreclosure."

29. ASSIGNMENT. Paragraph 56 is hereby amended and restated as follows:

"[Intentionally Deleted.]"

30. CONDEMNATION. Paragraph 57 is amended and restated as follows:

"Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be compensation for diminution in value of the Premises, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any portion of such condemnation award specifically attributable (and expressly in the award) to (i) Lessee's loss of business goodwill and/or Trade Fixtures, and (ii) if this Lease is terminated pursuant to the provisions of Paragraph 14 of the Lease, Lessee's reasonable relocation expenses and any excess of market rental value of the Premises for the remainder of the Original Term (as the same may be extended) over the present value as of the date of such termination of the Base Rent payable for the remainder of the Original Term (as the same may be extended). Notwithstanding any of the foregoing provisions of Paragraph 57, to the extent the language of Paragraph 57 conflicts with the a Lender's rights under a deed of trust, the

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terms and provisions of the deed of trust shall control prior to foreclosure, and at the Lessor's option, following foreclosure, or other

transfer in lieu of foreclosure."

31. CONNECTION TO NEIGHBORING PROPERTY. Paragraph 60 is hereby amended and restated as follows:

"[Intentionally Deleted.]"

32. DELAY IN COMMENCEMENT DATE. Paragraph 61 is hereby amended and restated as follows:

"Lessee hereby acknowledges that any damages resulting from Lessor's failure to cause Substantial Completion to occur on or before the Commencement Date have been waived by the Lessee."

33. RATIFICATION OF LEASE. Except as amended hereby, the Lease shall remain in full force and effect.

34. MISCELLANEOUS CHARGES. Paragraph 7.5 of the Work Letter is hereby amended and restated as follows:

"Lessee hereby acknowledges that its obligation under the Lease to pay for parking, restrooms, HVAC usage, electricity, water, elevator usage, loading dock usage, freight elevator usage and security, has commenced."

35. ADDENDUM. The first sentence of the first paragraph of the Addendum to the Lease is hereby amended and restated as follows:

"The following provisions are added to that certain Standard Industrial/Commercial Single Tenant Lease-Net dated for reference purposes as of November 15, 1999, by and between Champagne Building Group, LP, a California limited partnership, as the original lessor, Yale Investments, LLC, a Delaware limited liability company, as Lessor and Skechers USA, a Delaware corporation, as the Lessee."

36. NON-DISCRIMINATION CLAUSE. The Lease is hereby amended and restated to add the following language as Paragraph 66:

"The Premises are subject to the restriction that there shall be no discrimination or segregation based upon race, color, creed, religion, sex, marital status, national origin, or ancestry, in the sale, lease, sublease, transfer, use, occupancy, tenure, or enjoyment of the Premises."

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"Lessor"

YALE INVESTMENTS, LLC, a
Delaware limited liability company

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

By: /s/ DAVID WEINBERG

David Weinberg,
Executive Vice President
And Chief Financial Officer

By: /s/ PHILIP PACCIONE

Philip Paccione,
Secretary and General

Counsel

"Lessee"

SKECHERS USA, a Delaware
corporation

By: /s/ DAVID WEINBERG

David Weinberg,
Executive Vice President
And Chief Financial Officer

By: /s/ PHILIP PACCIONE

Philip Paccione,
Secretary and General
Counsel

PURCHASE AND SALE AGREEMENT
WITH ESCROW INSTRUCTIONS

This Agreement for Purchase and Sale Agreement with Escrow Instructions (this "Agreement") dated November 13, 2000, for identification purposes only, is made and entered into in Los Angeles County, California, by and between PACIFICA CALIFORNIA/APOLLO, LLC, a California limited liability company (hereinafter collectively "Seller"), and SKECHERS USA, INC., a Delaware corporation, or their assignee(s) under Paragraph 18.6 below (collectively the "Buyer") collectively, the "Parties" or individually, a "Party."

RECITALS:

A. Seller is the fee owner of certain property located in Los Angeles County, California, which is legally described on Exhibit A to this Agreement (the "Property").

B. The Parties wish to enter into this Agreement to provide for the agreed terms and conditions for the purchase and sale of the Property.

Now, Therefore, Buyer and Seller agree as follows:

1. Definitions. For purposes of this Agreement, the following terms are defined as follows:

1.1 Agreement. "This Agreement" means this contract including all Exhibits and amendments to these documents. The following Exhibits are incorporated by reference:

Exhibit A	Legal Description
of Property	
Exhibit B	Escrow Instructions
Exhibit C	Form of Deed
Exhibit D	General Assignment
Exhibit E	Form of Assignment and Assumption Agreement
Exhibit F	Tenant Estoppel Statements
Exhibit G	Seller's Certificate
Exhibit H	Due Diligence Materials
Exhibit I	Bill of Sale

This Agreement constitutes the contract for purchase and sale of real property and instructions to the Escrow Holder for the consummation of the Agreement through the Escrow. If there is any inconsistency or conflict between the terms of this Agreement and the Escrow Instructions set forth in Exhibit B, the terms of this Agreement shall control.

1.2 Buyer. "Buyer" means Skechers USA, Inc., a Delaware corporation, whose address is 228 Manhattan Beach Boulevard, Manhattan Beach, California. Buyer also means and includes the permitted assignee(s) of Buyer as provided in Section 18.6.

1.3 Seller. "Seller" means Pacifica California/Apollo, LLC, a California limited liability company, whose address is c/o Pacifica Capital Group, LLC, 330 Washington Boulevard, Marina del Rey, CA 90292. Seller's Taxpayer Identification Number (TIN) is 95-4655238.

1.4 Property. "Property" means the real property including Seller's interest, if any, in Improvements thereon consisting of a commercial development commonly known as 225 S. Sepulveda Boulevard, Manhattan Beach, California, as more particularly described on Exhibit "A" attached hereto.

1.5 Escrow Holder. "Escrow Holder" means Chicago Title Company, whose address is 700 S. Flower St., Suite 900, Los Angeles, CA 90017, Attn: Amy Hiraheta.

1.6 Title Company. "Title Company" means Chicago Title Company, whose address is 700 S. Flower Street, Suite 900, Los Angeles, CA 90017, Attn: Nate Glover.

1.7 Preliminary Title Report. "Preliminary Title Report" means the Title Report, dated August 14, 2000, and supplements, if any, issued by the Title Company, in respect to the Property.

1.8 Closing. "Closing" or "Close of Escrow" are terms used interchangeably in this Agreement. "Close of Escrow" will be deemed to have occurred when the Deed (as hereafter defined) is recorded in the official records of the County of Los Angeles. The last date on which the Closing shall occur is set forth in Section 3.5 unless Buyer requests an early Closing as provided therein.

1.9 Improvements. "Improvements" means all buildings, permanent structures, mechanical systems, electrical systems, heating, ventilation and air conditioning systems, plumbing systems, hydraulic systems, security systems, driveways, sidewalks, and other hardscape, landscape, sewers and underground utilities on the Property to be sold with the Property.

1.10 To Seller's Information and Belief. "To Seller's information and belief" or "to Seller's knowledge" means information actually known to Andy Carpiac, and is based on his actual knowledge.

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1.11. Permits. "Permit" or "Permits" mean and refers to any permit, approval, authorization, license, variance or permission required from a governmental authority regarding the Property.

1.12 Claim. "Claim" means any claim or demand by any Person for any alleged liabilities whether based in contract, tort, implied or express warranty, strict liability, criminal or civil statute, Permit, ordinance, regulation, common law, equity or otherwise.

1.13 Person. "Person" means any person, employee, individual, corporation, unincorporated association, limited liability company, partnership, trust, federal, state or local governmental agency, authority or other private or public entity.

1.14 Due Diligence Materials. "Due Diligence Materials" means any of those documents provided by Seller to Buyer before the Due Diligence Period.

1.15 Due Diligence Period. "Due Diligence Period" means the period expiring on November 29, 2000, during which period Buyer must complete its due diligence and satisfy all Buyer contingencies as provided in Section 9 of this Agreement.

1.16 Effective Date. The "Effective Date" shall be October 30, 2000.

1.17 "Environmental Laws" means all federal, state, local, or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees, or requirements of any government authority regulating, relating to, or imposing liability or standards of conduct concerning any Hazardous Substance, or pertaining to occupational health or industrial hygiene (and only to the extent that the occupational health or industrial hygiene laws, ordinances, or regulations relate to Hazardous Substances on, under, or about the Property), occupational or environmental conditions on, under, or about the Property, as now or may at any later time be in effect, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) [42 USCS Sections 9601 et seq.]; the Resource Conservation and Recovery Act of 1976 (RCRA) [42 USCS Sections 6901 et seq.]; the Clean Water Act also known as the Federal Water Pollution Control Act (FWPCA) [33 USCS Sections 1251 et seq.]; the Toxic Substances Control Act (TSCA) [15 USCS Sections 2601 et seq.]; the Hazardous Materials Transportation Act (HMTA) [49 USCS Sections 1801 et seq.]; the Insecticide, Fungicide, Rodenticide Act [7 USCS Sections 136 et seq.]; the Superfund Amendments and Reauthorization Act [42 USCS Sections 6901 et seq.]; the Clean Air Act [42 USCS Sections 7401 et seq.]; the Safe Drinking Water Act [42 USCS Sections 300f et seq.]; the Solid Waste Disposal Act [42 USCS Sections 6901 et seq.]; the Surface Mining Control and Reclamation Act [30 USCS Sections 1201 et seq.]; the Emergency Planning and Community Right to Know Act [42 USCS Sections 11001 et seq.]; the Occupational Safety and Health Act [29 USCS Sections 655, 657]; the California Underground Storage of Hazardous Substances Act [H & S C Sections 25280 et seq.]; the California Hazardous Substances Account Act [H & S C Sections 25300 et seq.]; the California Hazardous Waste Control Act [H & S C Sections 25100

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et seq.]; the California Safe Drinking Water and Toxic Enforcement Act [H & S C Sections 24249.5 et seq.]; the Porter-Cologne Water Quality Act [Wat C Sections 13000 et seq.], together with any amendments of or regulations promulgated under the statutes cited above and any other federal, state, or local law, statute, ordinance, or regulation now in effect or later enacted which pertains to occupational health or industrial hygiene (and only to the extent that the occupational health or industrial hygiene laws, ordinances, or regulations relate to Hazardous Substances on, under, or about the Property), or the regulation or protection of the environment, including ambient air, soil, soil vapor, groundwater, surface water, or land use.

1.18 Hazardous Substances includes without limitation:

1.18.1 Those substances included within the definitions of hazardous substance, hazardous waste, hazardous material, toxic substance, solid waste, or pollutant or contaminant in the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) [42 USCS Section 9601 et seq.]; the Resource Conservation and Recovery Act of 1976 (RCRA) [42 USCS Sections 6901 et seq.]; the Clean Water Act, also known as the Federal Water Pollution Control Act (FWPCA) [33 USCS Sections 1251 et seq.]; the Toxic Substances Control Act (TSCA) [15 USCS Sections 2601 et seq.]; the Hazardous Materials Transportation Act (HMTA) [49 USCS Sections 1801 et seq.] or under any other Environmental Law;

1.18.2 Those substances listed in the United States Department of Transportation (DOT) Table [49 CFR Section 172.101], or by the Environmental Protection Agency (EPA), or any successor agency, as hazardous substances [40 CFR Part 302];

1.18.3 Other substances, materials, and wastes which are or become regulated or classified as hazardous or toxic under federal, state, or local laws or regulations; and

1.18.4 Any material, waste, or substance which is (i) a petroleum or refined petroleum product, (ii) asbestos, (iii) polychlorinated biphenyl, (iv) designated as a hazardous substance pursuant to 33 USCS Section 1321 or listed pursuant to 33 USCS Section 1317, (v) a flammable explosive, or (vi) a radioactive material.

1.19 Additional Definitions. This Agreement provides additional definitions of certain words and phrases related to the terms and conditions as specified in various Sections of the Agreement.

2. General Representations

2.1 Status of Seller. Seller represents that: (i) Seller is a duly organized and existing limited liability company existing and in good standing under the laws of the State of California and is qualified to do business in the State of California; (ii) the individuals signing this Agreement are authorized to sign this Agreement on behalf of

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the Seller; and (iii) no other or additional action is required to authorize the sale of the Property.

2.2 Status of Buyer. Buyer represents that (i) it is a Delaware corporation, existing and in good standing and qualified to do business under the laws of the State of California; (ii) the persons executing this Agreement are authorized to sign this Agreement on behalf of Buyer; and (iii) the purchase of the Property in accordance with the terms of this Agreement has been validly authorized by Buyer.

2.3 Joint Representation. Seller and Buyer represent and agree that nothing contained in this Agreement is intended to create or shall be deemed a joint venture, partnership, or principal and agent business relationship.

3. Purchase and Sale.

3.1 Agreement for Purchase and Sale. Seller hereby agrees to sell and Buyer hereby agrees to purchase the Property for the price and on all terms and conditions of this Agreement.

3.2 Purchase Price. The Purchase Price for the Property is Fourteen Million Five Hundred Thousand and No/100 Dollars (\$14,500,000.00) payable by bank wire transfer in immediately available funds to Seller upon Close of Escrow. Upon Closing, the Purchase Price Deposit (defined below) plus all interest accrued on the Purchase Price Deposit shall apply to the payment of the Purchase Price.

3.3 Purchase Price Deposit. Within two (2) business days after signing this Agreement and subject to Buyer's right to terminate this Agreement as provided in Section 9, Buyer shall deliver to the Escrow Holder Two Hundred Fifty Thousand and No/100 Dollars (\$250,000.00) (the "Purchase Price Deposit") by a bank cashier's check or by federal wire transfer in immediately available funds.

3.3.1 Payment of Purchase Price Deposit. If Buyer breaches the Agreement after the expiration of the Due Diligence Period (provided that Buyer has not terminated the Agreement before the expiration of the Due Diligence Period) and the transaction contemplated hereby does not close as a result of such breach, then the total Purchase Price Deposit plus accrued interest shall be non-refundable to Buyer and shall be payable to Seller as liquidated damages. If this transaction is consummated in accordance with the terms of this Agreement, the total amount of such deposit plus accrued interest shall be applied in full towards payment of the Purchase Price at the Close of Escrow. All funds deposited in Escrow shall earn interest until paid out as liquidated damages or credited to payment of the Purchase Price at the Close of Escrow. Time is of the essence for deposit of the Purchase Price Deposit.

3.4 Opening of Escrow. Within two (2) business days after the full execution of this Agreement, the Parties shall open an escrow (the "Escrow") with Escrow Holder. The delivery of: (i) the Purchase Price Deposit by Buyer to

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Escrow Holder; and (ii) a fully signed copy of this Agreement including Exhibits to Escrow Holder, shall constitute opening the Escrow in accordance with this Agreement including the escrow instructions provided in Exhibit B.

3.5 Close of Escrow. Close of Escrow shall occur on a date no later than thirty (30) days after the end of the Due Diligence Period (the "Closing Deadline"). The parties agree that Buyer may request an earlier Closing subject to at least ten (10) business days prior written notice to Seller of Buyer's intent to Close effective as of the date specified in the notice.

3.5.1 Extension of Close of Escrow. Buyer shall have a one-time right to extend the Closing Date for up to thirty (30) days by notifying Seller and Escrow Holder in writing of such election at least five (5) business days prior to the Closing Deadline (the "EXTENSION NOTICE"), provided that concurrently with Buyer's delivery to Seller and Escrow Holder of the Extension Notice and as a condition to such extension, Buyer shall deposit into Escrow the additional sum of Fifty Thousand Dollars (\$50,000) (the "ADDITIONAL Deposit"). The Additional Deposit shall be immediately disbursed by Escrow Holder to Seller and such Additional Deposit shall not be refundable to Buyer. Upon Closing, the Additional Deposit plus all interest accrued thereon shall apply to the payment of the Purchase Price.

4. Property Sales Condition.

4.1 "As Is" Sale. Buyer agrees and acknowledges that except for and subject to the express representations and warranties provided in this Agreement, Buyer acknowledges and agrees that (I) THE PROPERTY IS SOLD "AS IS", "WHERE IS", AND "WITH ALL FAULTS" IN ITS CONDITION AS OF THE CLOSE OF ESCROW WITHOUT ANY REPRESENTATION OR WARRANTY REGARDING ITS CONDITION, FITNESS FOR ANY PARTICULAR PURPOSE, MERCHANTABILITY, OR COMPLIANCE WITH GOVERNMENTAL LAWS, ORDINANCES OR REGULATIONS, OR WITH ANY OTHER WARRANTY, EXPRESS OR IMPLIED BY LAW OR OTHERWISE; (II) BUYER SHALL PURCHASE THE PROPERTY BASED SOLELY ON BUYER'S OWN INDEPENDENT INVESTIGATION AND INSPECTION OF THE PROPERTY AND IMPROVEMENTS AND BUYER'S INDEPENDENT EVALUATION OF THE DUE DILIGENCE MATERIALS WHICH SHALL BE COMPLETED BEFORE THE EXPIRATION OF THE DUE DILIGENCE PERIOD; AND (III) SELLER IS NOT OBLIGATED TO ALTER, MODIFY, REMEDIATE OR IMPROVE THE PROPERTY OR IMPROVEMENTS BEFORE THE CLOSING.

4.2 Buyer Acknowledgment. Buyer acknowledges and agrees that as of the expiration of the Due Diligence Period, Buyer shall have reviewed, inspected and evaluated the Property including, without limitation, the environmental conditions regarding soil, groundwater and asbestos conditions (ACM), in, on or under the Property, the condition of title, whether the Property is located in a "flood zone" as

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set forth in HUD's Special Flood Zone Area Maps or is situated in a Special Study Zone as designated under the Alquist-Priolo Special Studies Zone Act and/or Earthquake Fault Zoning Act (and all successive and/or similar acts), the availability of utility services to the Property "as is" or as subdivided, the subdivision, the existing zoning, the condition of the roof and structural building components for all buildings, the electrical, plumbing, water, sewer, sprinkler, mechanical and other building systems for all buildings above or below ground, the Due Diligence Materials, and the suitability of the Property and Improvements "as is" (except for and subject to the express representations and warranties provided in this Agreement), at the Closing for Buyer's purposes and its intended use of the Property. Furthermore, except to the extent resulting from fraud, any intentional tort, any breach by Seller of any of its representations and warranties under this Agreement or any post-closing

obligations of Seller under this Agreement, Buyer, and any and all of Buyer's successors and assigns, do hereby release and waive with respect to Seller and Seller's agents any and all claims, losses, liabilities, costs and damages, known or unknown, with respect to the Property for any reason whatsoever, including, but not limited to, any improvements located thereon; and in connection therewith, further waive all rights and benefits arising under California Civil Code Section 1542 (and all successor and similar sections), which provides as follows:

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

Buyer's Initials

The foregoing releases, waivers and agreements of Buyer, and any and all of Buyer's successors and assigns, as set forth in this Paragraph 4 shall survive the Closing or any expiration or earlier termination of this Agreement.

4.3 Subject to Seller's representations and warranties contained in this Agreement, Seller has no obligation to repair or correct any facts, circumstances, conditions or defects regarding the Property or to compensate Buyer for same.

5. Title

5.1 Title Clearance. Buyer acknowledges receipt of the Preliminary Title Report from Seller for a CLTA owner's title policy together with photostatic copies of all documents affecting title, as disclosed in the Preliminary Title Report. Buyer shall approve or in good faith disapprove the Preliminary Title Report or any part thereof, by written notice to Seller and Escrow Holder within ten (10) business days after the date of this Agreement, unless otherwise waived by Buyer. If Buyer fails to so

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approve or in good faith disapprove the Preliminary Title Report, or any part thereof, in writing within this period, it shall be conclusively presumed that Buyer has approved and accepted the Preliminary Title Report in its entirety.

5.2 Title Exceptions. If the Title Company issues any additional supplements before Closing that add exceptions to the Preliminary Title Report, Buyer shall have five (5) business days after delivery to Buyer of each supplement with copies of all documents referred to in the supplements to approve or in good faith disapprove these supplements by written notice to Seller and Escrow Holder. If Buyer fails to so approve or in good faith disapprove such items within this five (5) business day period, it shall be conclusively presumed that Buyer has approved and accepted these supplements. If there are any title exceptions not approved by the Buyer as provided above, Seller shall have the right until the Close of Escrow to have the exceptions removed or corrected by the Title Company or to extend the Closing for a period not to exceed fifteen (15) days until such exceptions have been removed or corrected for approval by Buyer. If Seller is unable to have such exceptions removed or corrected by the Title Company for approval by Buyer, Buyer may elect to either (i) waive such exceptions or disapprovals; or (ii) terminate this Agreement upon written notice of the termination of this Agreement to Seller and Escrow Holder no later than five (5) days after written notice from Seller that the exceptions will not be removed. Buyer's failure to so terminate within the five (5) business day period constitutes a waiver of Buyer's termination rights and for this reason such title exceptions shall be deemed approved. If the Agreement is terminated by Buyer as provided above, Escrow Holder shall return to Buyer the Purchase Price Deposit plus accrued interest and the Escrow shall

terminate. Upon such termination Seller shall pay the Escrow costs if Buyer in good faith disapproves of any condition of title not corrected by Seller.

5.3 Scope of Seller's Title Obligations. Seller shall have the obligation to remove Buyer's title objections in respect to monetary liens created by or through Seller, except for unpaid taxes, which are not delinquent. Notwithstanding the above, in the event Seller cannot cure such monetary liens by commercially reasonable action, Seller shall have the right to terminate this Agreement by providing Buyer and Escrow Holder with written notice of such termination. Upon such termination Seller shall pay the Escrow costs and return the Purchase Price Deposit to Buyer.

5.4 Effect of Closing. Upon Closing, Buyer shall accept title to the Property subject to all exceptions approved, deemed approved or waived by Buyer as provided in this Agreement.

6. Buyer Investigation of Property.

6.1. Buyer Investigation.

a. Buyer shall have the right to conduct and complete an inspection and evaluation of the Property during the Due Diligence Period to determine if Buyer wishes to purchase the Property. This determination shall be in the sole and absolute

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discretion of Buyer for any reason or no reason. Notwithstanding the above, Buyer agrees that Buyer's investigation shall not include the penetration of the ground surface of the Property, or of any flooring, exterior walls or roofing, unless Buyer has obtained Seller's prior written consent thereto (which consent shall not be unreasonably withheld or delayed).

b. Buyer hereby agrees to indemnify and defend, with counsel reasonably satisfactory to Seller, Seller and Seller's agents, employees and officers, from and against any and all claims, demands, causes of action, damages and costs, resulting directly or indirectly from Buyer's inspection and investigation of the Property.

c. Prior to commencing any inspection or investigation of the Property, Buyer shall deliver to Seller evidence of insurance, in form and amount reasonably satisfactory to Seller, maintained by such individuals or entities.

6.2. Due Diligence Materials. Seller has delivered the Due Diligence Materials to Buyer and Buyer acknowledges receipt of the same, except for those items listed on Exhibit "H" which are identified as "NOT APPLICABLE." As to those items and as to the books and records in Seller's possession relating to the Property, Seller agrees to make its files relating to the Property (other than those of a privileged or confidential nature) available for review by Buyer at any time during normal business hours provided Buyer has given Seller at least one (1) business day prior written notice thereof.

6.3. On-Site Investigation. In addition to the Due Diligence Materials made available to Buyer by Seller, Buyer and its consultants shall have the right, if requested, during the Due Diligence Period to enter on the Property, at reasonable times, upon reasonable notice, and in such a manner as to minimize disturbance to lessees and other occupants of the Property, to conduct an independent on-site inspection of the Property based on Seller's reasonable entry conditions. Buyer shall be responsible for its own costs incurred during the Due Diligence Period and before the Closing.

6.4. Completion of Buyer's Investigation. Upon expiration of the Due Diligence Period, Buyer's investigation of the Property for any and all reasons in accordance with the terms of this Paragraph 6, including Buyer's review of

the Due Diligence Materials (hereinafter collectively referred to as "Buyer's Investigation") shall be deemed completed for purposes of this Agreement except as to matters disclosed by supplements to the Preliminary Title Report in accordance with Paragraph 5.1, above.

7. Representations and Covenants of Seller and Disclaimer.

7.1 Seller hereby make the following representations to Buyer:

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7.1.1 Authority of Seller. Seller has the full right, power and authority to sell, convey and transfer the Property to Buyer and to perform Seller's obligations under this Agreement.

7.1.2 Maintenance During Escrow. Seller shall maintain the Property until the Closing in its condition as of signing this Agreement, ordinary wear and tear or casualty loss excepted.

7.1.3 Foreign Person. Seller is not a "foreign person" within the meaning of Internal Revenue Code Section 1445 and California Revenue and Taxation Code Section 18662.

7.1.4 Special Assessments or Condemnation. To Seller's knowledge, there are not presently pending (i) any special assessments, except those shown as exceptions on the Preliminary Title Report, or (ii) condemnation actions against the Property or any part. Moreover, to Seller's knowledge, Seller has not received notice of any special assessments or condemnation actions being contemplated. To Seller's knowledge, there are no existing, proposed, or contemplated eminent domain proceedings that would affect the Property. Moreover, to Seller's knowledge, Seller has not received any notice of existing, proposed, or contemplated eminent domain proceedings that would affect the Property.

7.1.5 Streets. To Seller's knowledge, there are no existing, proposed, or contemplated plans to widen, modify, or realign any street or highway which affects the contemplated size of, use of, or set-backs on the Property and the Improvements.

7.1.6 Compliance with Laws. To Seller's knowledge, Seller has not received information from any governmental authority that the Property is in violation of any laws, ordinances, rules or regulations of such authority, unless any such violation has been cured.

7.1.7 State of Facts. To Seller's knowledge, Seller has not received written notice or written information that any party to any of the Leases or Service Contracts (as each term is defined below) considers a breach or default by Seller to have occurred.

7.1.8 Litigation. To Seller's knowledge, Seller is not involved in or aware of pending or threatened litigation which affects the Property. Furthermore, to Seller's knowledge, there are no proceedings pending or threatened against Seller before any court or administrative agency relating to the Property which adversely affects the Property, or which is likely to adversely affect Seller's ability to fulfill all of its obligations under this Agreement and the related documents.

7.1.9 Authority. This Agreement and all other documents delivered by Seller prior to or at the Close of Escrow (i) do not violate the provisions of any

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agreement to which Seller is a party or which affects the Property, and do not violate Seller's Articles of Organization or Operating Agreement.

7.1.10 Bankruptcy. No filing or petition under the United States Bankruptcy Law or any insolvency laws, or any laws for composition of indebtedness or for the reorganization of debtors has been filed with regard to Seller or any managing member of Seller.

7.1.11 Toxic or Hazardous Waste. To Seller's knowledge, there are no Hazardous Substances located on, under or about the Property, except as otherwise disclosed in any of the environmental reports delivered by Seller to Buyer as part of the Due Diligence Materials.

7.1.12 Seller's Estoppel. To Seller's knowledge, the information contained in any Seller's Estoppel Certificate given by Seller to Buyer pursuant to Section 13(b) below shall be true and correct as of the Closing.

7.1.13 Option to Purchase. Except as may otherwise be set forth in any of the Leases, to Seller's knowledge, no tenant of the Property has a contractual right or option to purchase the Property.

7.1.14 Commissions. To Seller's knowledge, except for any commissions which may be payable under any of the Leases upon occupancy of the respective premises by the applicable tenant, there are no unpaid brokerage commissions which are currently due and owing as of the date of this Agreement in connection with any of the Leases. To Seller's knowledge, the only commissions which are payable under any of the Leases upon occupancy relate to the lease of Suite 290 (by Multaler) and Suite 240 (by Buyer).

7.1.15 General Disclaimer. Except as expressly provided in a representation, warranty or statement of Seller in this Agreement, Seller makes no representation or warranty as to the accuracy of any document, certificate or schedule furnished or to be furnished to Buyer pursuant to this Agreement, and Seller makes no such warranty or representation as to whether such document, certificate or schedule contains or will contain any untrue statement of material fact or omits or will omit to state a material fact thereby making the statements or facts contained therein materially misleading.

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7.2. Seller agrees as follows:

7.2.1 Tenant Leases. Seller shall not modify, cancel, or amend any Lease or enter into any new lease between the date of this Agreement and the end of the Due Diligence Period without notifying Buyer in writing of such action (which notice shall be delivered on or before the earlier of five (5) days following such action or the end of the Due Diligence Period) and Seller shall not modify, cancel or award any Lease between the end of the Due Diligence Period and the Close of Escrow without Buyer's written approval, which shall not be unreasonably withheld (and which shall be given or denied within three (3) business days following Seller's request therefor; with Buyer's approval being deemed given if Buyer fails to timely respond within such three (3) business day period).

7.3 Limitations. The foregoing representations of Seller are true as of the date of this Agreement and as of the Closing and shall survive the recordation of the Deed and Close of Escrow for a period of twelve (12) months. Seller's representations are for the exclusive benefit of Buyer and Buyer's assignees and shall not be for the benefit of any other Person.

8. Representations of Buyer and Reliance.

8.1 Representations. Buyer hereby makes the following representations to Seller:

8.1.1 Authority of Buyer. It has full right, power and authority to purchase the Property from Seller under this Agreement and to perform Buyer's obligations under this Agreement including the financial capacity to perform this Agreement.

8.2 Limitations. The foregoing representations are true as of the date of this Agreement and shall be true as of the Closing.

9. Buyer's Right To Terminate.

9.1 Contingency For Buyer's Property Investigation. In addition to Buyer's right to terminate this Agreement as provided in Section 5, 15 and 16, if Buyer's Investigation discloses any condition or circumstance about the Property and Improvements that is unsatisfactory to Buyer during the Due Diligence Period, Buyer shall promptly notify Seller and Escrow Holder in writing of all facts and circumstances regarding such conditions and, at Buyer's election, Buyer may in its sole and absolute discretion either (i) terminate this Agreement and recover the Purchase Price Deposit plus accrued interest from Escrow; or (ii) waive such conditions or circumstances and this Agreement shall continue to the Close of Escrow in accordance with its terms and conditions. Except as otherwise provided in this Agreement, Buyer's right to terminate as provided above shall expire the last day of the Due Diligence Period. Buyer shall exercise the right to terminate by giving Seller and Escrow Holder

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written notice of the unconditional termination of this Agreement before the expiration of the Due Diligence Period. Failure to so exercise this right on or before that date shall be deemed a waiver of the right to terminate for this contingency.

9.2 Return of Due Diligence Materials. If this Agreement is terminated as provided in this Agreement, Buyer shall promptly deliver to Seller all original copies of the Due Diligence Materials provided by Seller to Buyer and copies of all Buyer consultant reports and other documents prepared by or for Buyer that pertain to the Property and Buyer's Investigation (hereinafter collectively referred to as "Consultant Reports").

9.3 Escrow Termination. Upon receipt of Buyer's written notice to terminate as provided above, Escrow Holder shall terminate the Escrow and return the Purchase Price Deposit to Buyer and Buyer shall pay all costs of Escrow, if any.

9.4 Buyer Remedies. In the event Seller shall breach or be in default of any of the terms and conditions of this Agreement, Buyer, prior to the pursuit of any other remedy, provisional or otherwise, shall arbitrate such matter in accordance with Section 17 hereof. In the event that Buyer shall elect to close Escrow with knowledge of any breach or default by Seller, then in such an event, Buyer shall be deemed to have waived such breach or default, and further waived any right to seek damages or other remedy thereafter.

9.5 SELLER'S DEFAULT. IF SELLER DEFAULTS UNDER THIS AGREEMENT AND FAILS TO COMPLETE THE PURCHASE AS PROVIDED HEREIN, THEN BUYER SHALL BE ENTITLED, AS ITS SOLE AND EXCLUSIVE REMEDY, WHETHER AT LAW OR IN EQUITY, EITHER (A) TO TERMINATE THIS AGREEMENT AND RECOVER THE PURCHASE PRICE DEPOSIT OR (B) IN LIEU OF TERMINATING THE AGREEMENT AND RECOVERING THE PURCHASE PRICE DEPOSIT, BUYER SHALL BE ENTITLED TO PURSUE SPECIFIC PERFORMANCE OF THIS AGREEMENT WITHOUT RIGHT TO ANY DAMAGES OR OTHER EQUITABLE RELIEF WHATSOEVER, BUT ONLY IF BUYER DEPOSITS WITH ESCROW HOLDER THE CASH BALANCE OF THE PURCHASE PRICE (OR EVIDENCE A LOAN COMMITMENT FOR SUCH CASH BALANCE OR FINANCIAL STATEMENTS EVIDENCING BUYER'S ABILITY TO FUND SUCH CASH BALANCE), WITHIN FIVE (5) BUSINESS DAYS FOLLOWING THE SCHEDULED CLOSING DATE, TOGETHER WITH ALL CLOSING DOCUMENTS REQUIRED HEREUNDER FROM BUYER AND BUYER FILES SUCH SPECIFIC PERFORMANCE ACTION WITHIN THIRTY (30) DAYS FOLLOWING THE SCHEDULED CLOSING DATE. BUYER SHALL NOT BE ENTITLED TO RECORD A LIEN OR LIS PENDENS AGAINST THE PROPERTY OTHER THAN IN CONNECTION AND

CONCURRENTLY WITH THE FILING OF SUCH SPECIFIC PERFORMANCE ACTION.

/s/ SO

/s/ Illegible

SELLER'S INITIALS

BUYER'S INITIALS

10. Confidentiality.

10.1 Confidentiality of Due Diligence Materials. Buyer acknowledges and agrees that the Due Diligence Materials are confidential business documents of Seller except for those documents that are available in public records.

10.2 Acknowledgment. Buyer shall instruct each of its employees, agents, contractors and consultants and any other person or firm performing consulting and/or legal services in connection with the purchase of the Property before Closing that the Due Diligence Materials and Consultant Reports are confidential business documents of Seller, and shall not be disclosed to any third person without the prior approval of Seller.

10.3 Post Closing Confidentiality. After Closing, Buyer may use any Due Diligence Materials in its possession or the possession of any Buyer's consultants as of the Close of Escrow as Buyer deems necessary and without Seller's prior approval.

11. Escrow.

11.1 Escrow Holder Performance. Escrow Holder is authorized and instructed to conduct the Escrow in accordance with this Agreement and Exhibit B, applicable law, and customary escrow practice in Southern California including any reporting requirements of the Internal Revenue Service. Escrow Holder shall close the Escrow by recording the Deed and such other documents required to be recorded and by disbursing the funds and documents in accordance with this Agreement and Exhibit B. Escrow Holder shall not prepare any further escrow instructions restating or amending this Agreement unless specifically instructed by the Parties.

11.2 Compliance with Notices, Demands or Changes. Escrow Holder shall not comply with any notice, demand or change of the Escrow Instructions unless such notice, demand or change is signed by authorized representatives of both parties or of one Party if the terms of this Agreement state that such notice may be provided solely by such one party.

11.3 Deliveries Into Escrow. No later than 11:00 A.M. on the business day prior to the Closing Deadline; (i) Buyer shall deliver to Escrow Holder, in certified funds or by wire transfer, all funds necessary to Close the Escrow in accordance with the terms of this Agreement; and (ii) Seller and Buyer shall also each deliver to Escrow Holder, all documents necessary on the part of each party to comply with this Agreement and as necessary for the Escrow Holder to close the Escrow in accordance with terms of this Agreement. These documents include, without limitation, the following documents:

(a) Deed. Seller will provide a duly executed and acknowledged deed (the "Deed") in recordable form conveying the Property to Buyer as set forth in Exhibit C. Seller shall execute and acknowledge a deed as provided herein and Seller shall deliver the Deed to the Escrow Holder before the Closing Deadline.

(b) Title Policy. Escrow Holder will provide to Buyer at Seller's sole cost a standard CLTA Owner's title insurance policy in the amount of the Purchase Price. If Buyer wishes to obtain an ALTA Owner's title insurance policy and/or any endorsements to the title policy, Buyer shall at its sole cost and expense and without delay to the Closing comply with all requirements of the Title Company for issuance of an ALTA Owner's title policy and/or any endorsements to the title policy. Buyer shall provide the Title Company with an ALTA survey of the Property, if required, at Buyer's expense, in a form satisfactory to the Buyer and the Title Company. Buyer shall pay all title insurance costs and expenses in excess of the cost of the standard CLTA Owner's title insurance policy. The actual Owner's title insurance which is issued to Buyer by the Title Company is hereinafter referred to as the "Title Policy."

(c) Non-Foreign Affidavits. Seller will provide duly executed Non-Foreign Affidavits pursuant to Section 1445 of the Internal Revenue Code, as amended, and Section 18662 of California Revenue and Taxation Code.

(d) General Assignment. Seller and Buyer will provide a fully executed General Assignment (hereinafter, the "General Assignment") in the form set forth in Exhibit D attached hereto with respect to the intangible property relating to the Property and the Improvements described therein including, without limitation, all approvals, permits, plans, maps, applications, subdivision rights, licenses, systems, meters, sewer connections and other property located on or attached to the Property and any Improvements remaining as of the Close of Escrow.

(e) Assignment and Assumption Agreement. Seller and Buyer will provide a fully executed Assignment and Assumption Agreement (hereinafter, the "Assignment and Assumption Agreement") in the form set forth in Exhibit E attached hereto.

(f) Bill of Sale. Seller will provide an executed Bill of Sale (the "Bill of Sale") in the form set forth in Exhibit "I" attached hereto.

(g) Seller's Deposits. Seller shall furthermore deposit into Escrow the following:

(i) Plans. The original plans and specifications relating to the Property, to the extent in Seller's actual possession;

(ii) Leases. The original Leases, to the extent in Seller's actual possession; and

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(iii) Certificates of Occupancy. The original certificates of occupancy, to the extent in Seller's actual possession.

(iv) Additional Items. All general ledger records, worksheets relating to CAM charges, original vendor invoices and tax bills, to the extent in Sellers' actual possession and solely relating to the Property.

(h) Proof of Authority. Proof of the authority and authorization of Buyer and Seller to enter into and complete performance of this Agreement including proof of the power and authority of the persons signing and/or delivering any instruments, documents, or certificates on behalf of the parties to act for and bind each party as reasonably required by the Title Company, Escrow Holder, Buyer, or Seller.

11.4 Close of Escrow. As used in this Agreement, "Close of Escrow" means the recordation of the Deed and in the official records of Los Angeles County, State of California. Escrow Holder shall complete the Closing on or before the Closing Deadline if it has received all the cash funds and documents required to

be delivered into Escrow by Buyer and Seller and if all of the conditions to Closing specified in this Agreement or the Escrow Instructions have been satisfied. Right to possession of the Property shall transfer to Buyer at the Close of Escrow, subject to Buyer's rights of early entry and investigation set forth herein, and the rights of tenants-in-possession, and further subject to the exceptions contained in the Title Policy.

11.5 Recordation and Distribution. To Close the Escrow, the Escrow Holder shall do the following: (i) cause the Deed to be recorded by the County Recorder of Los Angeles County and pay any real estate transfer taxes; (ii) deliver to Buyer the CLTA Owner's title policy or ALTA Owner's title policy if requested by Buyer, and the General Assignment, Bill of Sale, and Assignment and Assumption Agreement, and Seller's Non-Foreign Affidavit; (iii) pay Buyer any funds in excess of the Purchase Price and Buyer's share of costs and prorations which are properly refundable to Buyer; and (iv) concurrently deliver to Seller cash funds in the amount of the Purchase Price, less or plus the net debit or credit to Seller by reason of the prorations and allocation of Escrow costs and other adjustments provided for in this Agreement or other instructions to the Escrow Holder.

11.6 Escrow Prorations.

(a) Proration Process. All taxes, assessments, improvement bonds and other similar expenses, if any, affecting the Property shall be prorated as of 12:01 a.m. on the day of Closing in accordance with the following provisions. For calculating prorations, Buyer shall be deemed to have title to the Property for the entire day upon which Closing occurs. Any apportionments and prorations which are not expressly provided for below shall be made in accordance with customary escrow practice in Southern California. Escrow Holder shall prepare an agreed schedule of

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tentative adjustments no later than two (2) days before Closing for submission to Buyer and Seller. These adjustments, if and to the extent known and agreed by the parties, shall be paid by Buyer to Seller if the prorations result in net credit to Seller or by Seller to Buyer if the prorations result in a net credit to the Buyer by increasing or reducing the cash to be paid by Buyer through Escrow at Close of Escrow. Any adjustments not determined or agreed upon as of Closing shall be paid by Buyer to Seller, or by Seller to Buyer, as the case may be, in cash as soon as practicable after the Closing.

(b) Real Estate Taxes. All nondelinquent real estate taxes, assessments and improvements bonds due and payable on the Property shall be prorated as of the date of Closing based on the actual current Los Angeles County tax bill. After Closing, Buyer shall be solely liable and responsible for any real estate taxes and assessments except to the extent such taxes are attributable to the Property before Closing. All real estate tax assessments which are or may become a lien against the Property arising out of Seller's ownership, use or development of the Property prior to Closing, excluding assessments arising out of Buyer's ownership, use or development of the Property, shall be paid by Seller to be prorated as of the Closing.

(c) Utilities. As of the Closing, all outstanding and/or unpaid assessments for sewer and charges for consumption of electricity, water and gas (the "Utility Charges") shall be the responsibility of Seller to be prorated as of the Closing. Seller shall make a reading of all utility meters as of the Closing and report them to Buyer within thirty (30) days after the Closing. Buyer shall be responsible for and pay all such Utility Charges, and sewer assessments after the Closing and all such Utility Charges shall be prorated as of the Close of Escrow accordingly.

(d) Security Deposits. Buyer shall be credited and Seller shall be charged with any security deposits and advanced rentals in the nature of security deposits made by the lessees under the Leases, except to the extent

same have been applied in accordance with the terms of said Leases.

(e) Rentals. Buyer shall be credited and Seller shall be charged with rentals and other payments, including "Percentage Rent" and operating cost pass-throughs, actually paid by lessees, licensees, concessionaires and other persons using or occupying the Property or any part thereof, for or in connection with such use or occupancy, for periods subsequent to the Close of Escrow. However, Buyer shall not be obligated to make any payment or give any credit to Seller on account of, or by reason of, any rental or other payments which are unpaid as of the Closing Date, but shall be required merely to turn over to Seller its share of the same if, as and when received by Buyer. All payments received by Buyer from a lessee, licensee, concessionaire or other person shall be applied against the most delinquent obligation or obligations of the payor. Buyer hereby agrees to utilize reasonable commercial efforts to collect such delinquent sums.

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(f) Leasing Commissions and Tenant Improvements. Commissions of leasing and rental agents and tenant improvement allowances for any Leases entered into prior to November 1, 2000, whether in respect to base lease term, future expansions, renewals, or otherwise, shall be paid in full at or prior to the Closing by Seller, without contribution or proration from Buyer (except that Seller shall have no responsibility for the payment of commissions which are not due and owing as of the Closing [including any commissions due under any of the Leases upon occupancy where the tenant has not occupied its premises as of the Closing] or which relate to any future expansion or lease renewal which occurs after the Closing, nor shall Seller be responsible for the payment of any tenant improvement allowance which is not due and owing as of the Closing, and Buyer shall be solely responsible for the same). Commissions of leasing and rental agents and tenant improvement allowances for any Leases entered into on or subsequent to November 1, 2000, in accordance with Paragraph 18.2, whether with respect to base lease term, future expansions, renewals, or otherwise, shall be prorated between Seller and Buyer based upon the portions of the lease term which occur prior to (which shall be the obligation of Seller) and after (which shall be the obligation of Buyer) the Closing. Notwithstanding anything to the contrary contained herein, Seller is responsible for all commissions and tenant improvement allowances with respect to the lease of Suite 175 in the Property (containing approximately 3,341 rentable square feet). Seller shall provide Buyer with a credit at the Closing in the amount of any tenant improvement allowance which remains due, but unpaid by Seller as of the Closing Date with respect to the lease of Suite 175.

(g) Post Closing Matters. Any item to be prorated that is not determined or determinable at the Closing shall be promptly adjusted by the Parties by appropriate transfer payments outside of Escrow when the amount due is determined after the Close of Escrow.

11.7 Escrow Costs and Expenses.

(a) Seller Costs. Seller shall pay (i) all premiums for the standard CLTA Owner's title policy in the amount of the Purchase Price; (ii) one-half (1/2) of all Escrow fees and costs; (iii) Seller's share of the above prorations; and (iv) fifty percent (50%) of all documentary transfer taxes.

(b) Buyer Costs. Buyer shall pay (i) the ALTA portion of title insurance premiums for the standard ALTA Owners title policy and the cost of any endorsements to such policy requested by Buyer; (ii) all document recording charges and fifty percent (50%) of all documentary transfer taxes; and (iii) one-half (1/2) of all Escrow fees and costs.

(c) Professional Fees. Buyer and Seller shall each pay the legal and professional fees of any agents and consultants retained by them as incurred by Buyer and Seller respectively. All other Closing costs and expenses shall be allocated

between Buyer and Seller in accordance with the customary escrow practice in Southern California.

(d) Tax Transfer. Unless requested by Buyer to the contrary, Escrow Holder shall affix documentary transfer tax amounts before the recordation of the Deed.

(e) Withholding Tax. Seller shall deliver to the Escrow Holder a duly executed California Form 590 that exempts Seller from any withholding tax on the Purchase Price under Section 18662 of the California Revenue and Taxation Code.

12. Seller's Conditions to Closing. Close of Escrow and Seller's obligation to perform under this Agreement are conditioned upon the full performance by Buyer or waiver by Seller at the Closing of all of the following:

(a) Buyer shall have deposited all documents and funds into Escrow as required by this Agreement and the balance due in the total amount of the Purchase Price;

(b) Buyer shall have paid into Escrow any other sums required as provided in this Agreement;

(c) All Buyer representations set forth in this Agreement shall be true and correct in all material respects as of Closing; and,

(d) Seller shall not have terminated this Agreement pursuant to the terms of this Agreement.

12.1 Waiver. All of the above conditions are for the exclusive benefit of Seller and may be waived by Seller at any time, provided that any waiver to be effective must be in writing duly signed by Seller and delivered to Escrow Holder and Buyer. Escrow Holder shall assume that Buyer representations are true and the conditions set forth in Section 12(c) are satisfied or waived unless it receives written notice to the contrary from Seller before Closing. Seller's consent to Closing shall constitute a waiver by Seller of any unsatisfied conditions provided that such waiver shall not waive Buyer's obligations to cause such conditions to be satisfied promptly after the Closing.

13. Buyer's Conditions to Closing. Close of Escrow and Buyer's obligations to perform under this Agreement are conditioned upon the full performance by Seller or waiver by Buyer at the Closing of all of the following:

(a) The Deed executed by Seller, and in recordable form, shall have been deposited into Escrow together with other documents which Seller is required to deposit in the Escrow;

(b) Tenant Estoppel Certificates and Tenant Subordination Agreements. Seller shall use reasonable efforts to deliver to Buyer, not more than thirty (30) days and not less than ten (10) days prior to the Close of Escrow (i) a completed, executed tenant estoppel certificate (the "Estoppel Certificates") from each tenant at the Property, substantially in the form attached hereto as Exhibit "F", or on a different form approved by Seller, and (ii) a subordination agreement (the "Subordination Agreements"), executed and notarized in recordable form, from each tenant at the Property on the most recent Subordination, Non-Disturbance and Attornment form adopted by the American Institute of Real Estate or on a different form approved by Seller (the "AIR "Subordination"). Notwithstanding the preceding sentence, it shall be a condition precedent to

Buyer's obligation to purchase the Property (which may be waived by Buyer in its sole discretion) that Seller deliver to Buyer (aa) Estoppel Certificates (the "Required Certificates") from both (x) all tenants (other than Buyer) who, at the Close of Escrow, lease more than 5,000 rentable square feet of space at the Property ("Major Tenants"), and (y) tenants (including the Major Tenants) who, at the Closing Date, in the aggregate, lease at least 75% of the rentable square footage of the Property (provided that for purposes of determining the rentable square footage of the Property, the rentable square footage leased or subleased by Buyer in the Property shall not be included), exclusive of month-to-month tenancies, and (bb) Subordination Agreements (the "Required Agreements") from both (x) all Major Tenants (other than Buyer), and (y) tenants (including the Major Tenants) who, at the Closing Date, in the aggregate, lease at least 75% of the rentable square footage of the Property (provided that for purposes of determining the rentable square footage of the Property, the rentable square footage leased or subleased by Buyer in the Property shall not be included), exclusive of month-to-month tenancies. If Seller is unable to deliver a Required Certificate or Required Agreement prior to the Closing Date, Seller may elect, by written notice to Buyer, to either (1) subject to Buyer's willingness to accept Seller Estoppel Certificates (in Buyer's sole and absolute discretion), close the transaction in accordance with the terms and conditions of this Agreement by providing to Buyer, Seller Estoppel Certificates, as defined below, sufficient, when combined with Estoppel Statements executed by Tenants, to represent at least 75% of the rentable square footage of the Property (provided that for purposes of determining the rentable square footage of the Property, the rentable square footage leased or subleased by Buyer in the Property shall not be included), as provided above, or (2) extend the Closing Date for up to thirty (30) days (the "30 Day Period") to enable Seller to obtain and deliver to Buyer the Required Certificates and Required Agreements. If Seller elects to delay the Closing Date for the 30 Day Period and Seller fails to deliver the Required Certificates or the Required Agreements by the end of such 30 Day Period, Buyer may elect, by written notice to Seller, to either (xx) close the transaction in accordance with the terms and conditions of this Agreement, or (yy) terminate the transaction (and receive a full refund of the Purchase Price Deposit). If Buyer fails to deliver a written notice to Seller specifying one of the foregoing courses of action within three (3) business days following the end of the 30 Day Period, such inaction shall be deemed Buyer's election to accept the Property and proceed to the Closing in a timely manner. Prior to delivering the Estoppel Certificates and Subordination Agreements to the tenants, Seller shall first deliver the same to the Buyer for review

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and approval. Buyer shall have three (3) business days after the receipt of each such unexecuted Estoppel Certificate and Subordination Agreement to approve or disapprove the same. After Seller has obtained the executed Estoppel Certificates and Subordination Agreement from any tenant, Seller shall again deliver the same to Buyer for review and approval. Buyer shall have three (3) business days after the receipt of each such executed Estoppel Certificate and Subordination Agreement to approve or disapprove the same (provided, however, that Buyer may only disapprove a tenant executed Estoppel Certificate or Subordination Agreement if it (dd) contains information materially inconsistent with the unexecuted draft of the same previously approved by Buyer, (ee) alleges a default under the applicable lease, or (ff) discloses a material dispute between the landlord and tenant in connection with the applicable lease). A copy of the Seller Estoppel Certificate is attached hereto as Exhibit "G." Notwithstanding any other terms herein, the AIR Subordination shall be utilized by Seller, and shall be deemed approved by Buyer, unless, prior to the end of the Due Diligence Period, Buyer shall provide Seller with an alternative Subordination Agreement form reasonably acceptable to Seller.

(c) The Title Company shall be prepared to issue an ALTA Owner's policy to Buyer subject to the conditions of title approved or waived pursuant to Section 5 (provided that this condition shall be deemed satisfied unless the failure to issue any ALTA policy results from the issuance by the Title Company of a supplemental title report after the end of the Due Diligence Period);

(d) Seller shall deliver to the Escrow Holder, in respect to each Owner, a duly executed California Form 590RE that exempts Seller from any withholding tax on the Purchase Price under Section 18422 of the California Revenue and Taxation Code.

(e) Seller shall deliver to the Escrow Holder a FIRPTA certification under IRC Section 1445 and California Revenue and Taxation Code Section 18662.

(f) All Seller representations set forth in this Agreement shall be true and correct in all material respects as of Closing; and,

(g) Buyer shall not have terminated this Agreement pursuant to the Sections 5, 9, 15 or 16 of this Agreement.

13.1 Waiver. All of the above conditions are for the exclusive benefit of Buyer and may be waived by Buyer at any time, provided that any waiver must be in writing duly signed by Buyer and delivered to Escrow Holder and Seller to be effective. Escrow Holder shall assume that Seller representations are true and that the conditions set forth in Section 13(f) are satisfied or waived, and such conditions shall be deemed satisfied or waived unless Escrow Holder receives written notice to the contrary from Buyer before the Closing. Buyer's consent to Closing shall constitute a waiver by Buyer of any unsatisfied conditions to Closing, provided that such waiver shall not waive Seller's obligations to cause such conditions to be satisfied promptly after the Closing.

14. SELLER LIQUIDATED DAMAGES.

THE PARTIES AGREE THAT IT WOULD BE IMPRACTICABLE OR EXTREMELY DIFFICULT TO DETERMINE, PRIOR TO SIGNING THIS AGREEMENT, THE ACTUAL DAMAGES WHICH WOULD BE SUFFERED BY SELLER IF BUYER FAILS TO PERFORM ITS OBLIGATIONS UNDER THIS AGREEMENT. THEREFORE, IF BUYER BREACHES THE OBLIGATION TO PURCHASE THE PROPERTY AND THE SALE DOES NOT CLOSE AS A RESULT OF SUCH BREACH, SELLER SHALL BE ENTITLED TO LIQUIDATED DAMAGES PAYABLE BY BUYER OR ESCROW HOLDER ON BEHALF OF BUYER TO SELLER IN THE AMOUNT OF THE PURCHASE PRICE DEPOSIT THEN IN ESCROW PLUS ACCRUED INTEREST THEREON TO THE DATE OF PAYMENT TO SELLER. UPON PAYMENT OF SAID SUMS TO SELLER, BUYER SHALL BE RELEASED FROM ANY FURTHER LIABILITY TO SELLER, EXCEPT FOR BUYER'S OBLIGATIONS UNDER SECTIONS 6.1(b) AND 18.13 OF THIS AGREEMENT. THIS PAYMENT TO SELLER IS INTENDED TO CONSTITUTE LIQUIDATED DAMAGES TO SELLER PURSUANT TO SECTIONS 1671, 1676 AND 1677 OF THE CALIFORNIA CIVIL CODE, AND SHALL NOT BE DEEMED TO CONSTITUTE A FORFEITURE OF PENALTY WITHIN THE MEANING OF SECTION 3275 OR 3369 OF THE CALIFORNIA CIVIL CODE OR ANY SIMILAR PROVISION.

/s/ Illegible

Buyer's Initials

/s/ SO

Seller's Initials

15. Condemnation. If prior to Closing, the Property or any part of the Property is taken through the power of eminent domain, then Buyer has the right to elect in writing within ten (10) days after Seller's notice of this action to (i) terminate this Agreement by written notice to Seller and Escrow Holder of the unconditional termination of this Agreement within ten (10) days after receipt of such notice from Seller and receive a refund of all monies deposited in Escrow plus accrued interest thereon; or (ii) close the Escrow as provided in this Agreement and have all eminent domain proceeds payable by reason of such condemnation assigned to and paid to Buyer. If Buyer does not so elect to terminate this Agreement, the Escrow shall proceed to Closing as provided in this Agreement and Seller shall assign to Buyer all eminent domain proceeds, claims, or causes of action.

If prior to the Closing, there is a temporary taking through the power of eminent domain of all or part of the Property, this Agreement will remain in full force and effect and the obligations of the parties shall be extended for

the period of delay caused by this temporary taking; provided, however, after one (1) month of delay Buyer or Seller shall have the right to terminate this Agreement upon written notice to the other party and Escrow Holder. If Buyer or Seller elects to terminate this Agreement as provided above, then the Purchase Price Deposit plus accrued interest thereon shall be paid to Buyer and this Agreement shall be deemed terminated and each

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party shall be relieved of their respective obligations under this Agreement. Seller and Buyer shall each bear one-half of the escrow costs.

16. Casualty Loss.

16.1 Notice of Casualty. Between the date of this Agreement and the Closing, Seller shall give Buyer written notice of any fire or other casualty loss or other occurrence including seismic disturbance at the Property and Improvements, including the amount of such damage or loss.

16.2 Losses. If prior to the Closing the Property or any part thereof is damaged and a contractor designated by both parties determines in its sole reasonable judgment that the cost of repairing such damage is in excess of \$250,000, then Buyer has the right to elect in writing within ten (10) days after Seller's notice of the occurrence and amount of damage to (1) terminate this Agreement by written notice to Seller and Escrow Holder within ten (10) days after receipt of such notice from Seller and receive the return of all monies deposited in Escrow plus accrued interest thereon; or (ii) proceed to Close the Escrow as provided in this Agreement, in which event Seller shall assign to Buyer all of Seller's right, title and interest in and to any insurance proceeds resulting from such damage.

If prior to the Closing, the Property and Improvements or any part thereof is damaged and a contractor designated by both parties determines in its sole reasonable judgment that the cost of repairing such damage is less than \$250,000.00, Seller shall, at Seller's election, (a) repair or replace the damaged Property and Improvements at its sole cost and expense before Closing or (b) assign to Buyer all of Seller's right, title and interest in and to any insurance proceeds resulting from such damage, and, in addition thereto, credit to Buyer, at the Closing, the difference between the cost of repairing the damage, determined above, and the amount of Seller's insurance proceeds being assigned pursuant to this paragraph.

16.3 Disputes. All disputes arising under this Section 16, to the extent that they cannot be resolved by mutual agreement between Seller and Buyer, shall be resolved as provided in Section 17 of this Agreement before or after Closing.

17. Settlement of Disputes.

17.1 Arbitration of Disputes. Any dispute regarding the interpretation, enforcement or performance of this Agreement, the Deed, the General Assignment, the Bill of Sale, or the Assignment and Assumption Agreement shall be decided by binding and non-appealable arbitration before a single arbitrator pursuant to the commercial arbitration rules of JAMS. Following a demand for arbitration, the parties shall have ten (10) calendar days to agree upon an arbitrator. If the parties cannot agree upon an arbitrator within such period, then either party may request that JAMS appoint an arbitrator. The decision of such arbitrator shall be final, and either party may apply to a court of competent jurisdiction for the confirmation thereof. The prevailing party in

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such arbitration shall be entitled to reimbursement of its reasonable attorney's

fees and costs, expert witness fees and arbitration fees. Any such arbitration shall be conducted in Los Angeles County.

17.2 NOTICE: BY INITIALING IN THE SPACE BELOW, EACH PARTY GIVES UP ANY RIGHTS TO HAVE ANY DISPUTE LITIGATED IN A TRIAL COURT AND TO A JURY TRIAL. IF EITHER PARTY REFUSES TO SUBMIT TO THE AGREED ARBITRATION PROCEEDINGS, SUCH PARTY MAY BE COMPELLED TO SUBMIT TO SUCH ARBITRATION PROCEEDINGS UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. THE PARTIES' AGREEMENT TO THIS REFERENCE PROVISION IS VOLUNTARY.

THE UNDERSIGNED HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THE "SETTLEMENT OF DISPUTES" PROVISIONS TO ARBITRATION.

/s/ Illegible

Buyer's Initials

/s/ SO

Seller's Initials

18. General Provisions.

18.1 Counterparts. This Agreement may be signed in counterparts, provided that this Agreement or any counterpart shall be of no force and effect unless and until Buyer and Seller have both signed this Agreement or a counterpart.

18.2 Use of Land and Improvements. Subject to the provisions of this Agreement, Seller shall retain the possession and use of the Property until the Close of Escrow in a manner determined by Seller.

18.3 Notices.

18.3.1 Notice to Parties. All notices and demands shall be given in writing by personal delivery, courier service, Federal Express, or U. S. registered or certified mail postage prepaid return receipt requested. Notice shall be deemed given as of two (2) business days after deposit into the United States mail, or in the case of any other acceptable communication, upon delivery to the addressee. Notices shall be addressed as set forth below for the respective party, provided that if a party gives notice of a change of name or address, notices to that party shall thereafter be given as specified in that notice. Facsimile communication may be used to expedite communication only.

To Seller: Pacifica California/Apollo, LLC
c/o Pacifica Capital Group, LLC
330 Washington Boulevard, Ste. 300
Marina Del Rey, California 90292
Attn: Andy Carpiac
Telephone: (310) 301-4333
Facsimile: (301) 301-4334

with a copy to: Jeffer, Mangels, Butler & Marmaro LLP
2121 Avenue of the Stars, Tenth Floor
Los Angeles, California 90067
Attn: Scott M. Kalt, Esq.
Telephone: (310) 785-5314
Fax: (310) 203-0567

To Buyer: Skechers USA, Inc.
228 Manhattan Beach Boulevard
Manhattan Beach, California 90266
Attn: Philip Paccione, Esq.
Telephone: (310) 318-3100
Facsimile: (310) 798-7961

with a copy to: Kirkpatrick and Lockhart
9100 Wilshire Boulevard, Eighth Floor (East Tower)
Beverly Hills, California 90212
Attn: William Bernfeld, Esq.
Telephone: (310) 273-1870
Fax: (310) 274-8293

18.3.2 Notice to Escrow Holder. Notices shall be sent to the Escrow Holder as follows:

To Escrow Holder: Chicago Title Company
700 S. Flower Street
Los Angeles, CA 90017
Attention: Amy Hiraqueta
Telephone: 213-488-4300
Facsimile: 213-488-4384

Notices sent to either Party after Escrow is opened shall also be sent to the Escrow Holder.

18.4 Amendment. This Agreement may be amended at any time only by the mutually acceptable written agreement signed by authorized representatives of Buyer and Seller.

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18.5 Binding Upon the Parties. All amendments, changes, and revisions of this Agreement, in whole or in part, and made from time to time, shall be binding upon the parties and their successors or permitted assigns if the document is in writing and signed by the Buyer and Seller.

18.6 Assignment; Binding on Successors. Seller shall not assign this Agreement or any right under it without the prior written consent of Buyer which Buyer may withhold in its sole and absolute discretion. Any attempted assignment in violation of this Agreement shall be null and void.

Buyer may assign this Agreement to an Affiliate. For the purposes of this paragraph, the term "Affiliate" means an entity that is wholly owned by Buyer.

18.7 Waiver of Conditions or Remedies. The waiver by one party of the performance of any agreement, condition, or promise under this Agreement shall not invalidate this Agreement nor shall it be considered a waiver by that party of any other agreement, condition, or promise under this Agreement. The waiver by either or both parties of the time for performing any act required by this Agreement shall not constitute a waiver of the time for performing any other act or an identical act required to be performed at a later time. The exercise of any remedy provided in this Agreement shall not be a waiver of any consistent remedy provided by law, and any provision in this Agreement for a specific remedy shall not exclude other consistent remedies unless they are expressly excluded.

18.8 Exhibits. All exhibits to which reference is made are deemed incorporated in this Agreement whether or not the Exhibits are actually attached.

18.9 Further Acts. Each party agrees to perform any additional acts which may be reasonably necessary to carry out the provisions of this Agreement including the signing and delivery of documents specified in this Agreement.

18.10 Severability. If any provisions of this Agreement or any escrow instructions signed pursuant to this Agreement are held by a court of competent jurisdiction to be invalid, this determination shall not affect the validity of the remaining provisions of this Agreement.

18.11 Time of the Essence. Time shall be of the essence as to all dates and times of performance whether contained in this Agreement or in the Escrow

Instructions.

18.12 Recording Documents. Under no circumstances may either Party record this Agreement or any amendment thereto or record a memorandum thereof before Closing.

18.13 Brokers. Seller and Buyer each agree to indemnify, defend, and hold each other harmless against any loss, liability, damage, cost, claim or expense incurred

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by reason any brokerage fee, commission or finder's fee alleged to be payable because of the formation of this Agreement or any dealings or other acts or omissions of the indemnifying party regarding any broker or other intermediary compensation for the purchase and sale of the Property. In the event the sale of the Property to Buyer is consummated pursuant to the terms hereof, Seller agrees to pay a brokerage commission to Grubb & Ellis and Leonard & Ohren pursuant to the terms of a separate agreement.

18.14 Publicity. Except for those matters that must be disclosed to perform the Buyer and Seller commitments under this Agreement, the parties agree that the provisions of this Agreement are confidential business of Buyer and Seller and no press releases concerning the transactions provided for in this Agreement shall be made by either party before Closing without the prior written consent of the other party which consent may be withheld as the other decides in its sole discretion.

18.15 Applicable Law. This Agreement shall be construed and enforced in accordance with and its performance shall be governed by the law of the State of California including any other federal or local law, regulation or ordinance that apply as provided in this Agreement.

18.16 Construction. This Agreement has been prepared by Seller and its professional advisors and reviewed by Buyer and its professional advisors. Seller and Buyer and their respective advisors believe that this Agreement is the result of their negotiation efforts, that it expresses their agreement and that it should not be interpreted in favor of or against either Buyer or Seller. The Parties further agree that this Agreement will be construed to effectuate the normal and reasonable expectations of a sophisticated Seller and Buyer.

18.17 Survival of Provisions. The covenants, agreements, representations and warranties of both Buyer and Seller set forth in this Agreement (including any certification by Seller pursuant to any Seller Estoppel Certificate), shall survive the recordation of the Deed and the Close of Escrow for a period of twelve (12) months.

18.18 Holidays. Whenever this Agreement provides for a date or period of time on or before which date certain acts or events are to occur, if such date or last day of such period falls on a Saturday, Sunday or legal Holiday in the State of California, the date shall be deemed to fall on the next business day.

18.19 Entire Understanding. This Agreement contains the entire understanding between the Parties and supersedes any prior understandings or written or oral agreements between them regarding the purchase and sale of the Property. There are no representations, agreements, arrangements or understandings, oral or written, between the parties hereto relating to the subject matter of this Agreement which are not fully expressed in this Agreement. The parties further intend that this Agreement constitutes the complete and exclusive statement of its terms and that no extrinsic

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evidence whatsoever may be introduced in any judicial proceeding involving this Agreement.

18.20 No Obligations to Third Parties. Except as otherwise expressly provided herein, the execution and delivery of this Agreement shall not be deemed to confer any rights upon, nor obligate any of the parties thereto, to any person or entity other than the parties hereto.

18.21 Limitation of Liability. Buyer acknowledges and agrees that neither the trustees, shareholders, officers, investment managers, employees, partners nor advisors of Seller, assume any personal liability for obligations entered into by or on behalf of Seller. Notwithstanding any other provision of this Agreement to the contrary, in no event shall Seller have any liability for speculative, special, consequential, punitive, or any other damages other than actual damages under this Agreement and in no event will Seller's liability for actual damages exceed the sum of \$1,000,000.00.

IN WITNESS WHEREOF, parties have executed this Agreement together with the Exhibits attached hereto by their duly authorized signatories effective as of the day and year last written below.

SELLER:

BUYER:

PACIFICA CALIFORNIA/APOLLO, LLC, a California limited liability company

SKECHERS USA, INC., a Delaware corporation

By: /s/ STEVEN OHREN

By: /s/ DAVID WEINBERG

Steven Ohren, Manager

Name: David Weinberg

Its: CFO

By: /s/ PHILIP C. PACCIONE

Name: Philip C. Paccione

Its: VP of Business Affairs

Dated: _____, 2000

Dated: 11-13, 2000

Place: Los Angeles, CA

Place: Los Angeles, CA

EXHIBIT A

Legal Description of the Property

Parcel A as created by that certain Declaration of Lot Consolidation recorded October 29, 1987, Instrument No. 87-1732114, Official Records, also described as:

LOTS 11, 12 AND 13 IN BLOCK 2 OF CARNATION VILLA TRACT, IN THE CITY OF MANHATTAN BEACH, IN THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 7 PAGE 42 OF MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

EXCEPT THEREFROM THAT PORTION OF SAID LOT 11, DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHEAST CORNER OF SAID LOT 11, THENCE NORTH 89 DEGREES 45 MINUTES 30 SECONDS WEST ALONG THE NORTH LINE OF SAID LOT 11 A DISTANCE OF 12.00 FEET; THENCE SOUTH 00 DEGREES 09 MINUTES 00 SECONDS WEST, A DISTANCE OF 199.96 FEET TO A POINT OF CURVATURE; THENCE THROUGH A CURVE, CONCAVE TO THE NORTHWEST, HAVING A RADIUS OF 25 FEET, A DISTANCE OF 39.31 FEET TO A POINT OF TANGENCY ON THE SOUTH LINE OF SAID LOT 11; THENCE SOUTH 89 DEGREES 45 MINUTES 30 SECONDS EAST ALONG THE SOUTH LINE OF SAID LOT 11 A DISTANCE OF 37.04 FEET TO THE SOUTHEAST CORNER OF SAID LOT 11; THENCE NORTH 00 DEGREES 09 MINUTES 00 SECONDS EAST ALONG THE EAST LINE OF SAID LOT 11 A DISTANCE OF 225.00 FEET TO THE POINT OF BEGINNING.

EXHIBIT B

ESCROW INSTRUCTIONS

To: Chicago Title Company Escrow No. _____

_____, 2000

The attached Agreement for Purchase and Sale of Real Property and Escrow Instructions dated November 13, 2000 (herein referred to as the "Agreement") by and between Pacifica California/Apollo, LLC, a California limited liability company, collectively as Seller, and Skechers USA, Inc., a _____, as Buyer, together with the escrow instructions provided below are your escrow instructions. You as Escrow Holder are authorized to act thereunder as provided therein. You are only to be concerned with the sections in the Agreement that pertain to the Escrow Holder. All other terms of the Agreement are matters between the Buyer and Seller.

ARTICLE 1
SPECIAL PROVISIONS

- 1. Upon opening Escrow, Buyer shall deposit the Purchase Price Deposit in the principal amount of Two Hundred Fifty Thousand and No/100 Dollars (\$250,000.00) by cash, bank cashier's check, or wire transfer in immediately available funds.
- 2. Except as otherwise provided in the Agreement, if written objection is filed with you by Buyer or Seller regarding any Escrow Holder action, you are directed to hold all money and documents in this escrow and take no further action until otherwise directed by either the mutual written instructions of Buyer and Seller or by final order of a court of competent jurisdiction or the Referee under Article 17 of the Agreement.
- 3. You shall establish an interest bearing escrow account for receipt of any funds or payments you receive from Buyer or Seller as provided in the Agreement.
- 4. All sums to be paid by you to the Seller upon Closing shall be by wire transfer in immediately available funds for credit to the following account:

Account Name:
Account Number:
Bank Name:
Bank Location:

GENERAL PROVISIONS

1. These escrow instructions embody, by reference above, those certain instructions executed by and between Seller and Buyer, as identified in the Purchase and Sale Agreement ("Agreement")
2. In the event of any conflict or inconsistency between these escrow instructions and those in the Agreement, these instructions shall fully control as between all parties to this escrow and the escrow holder.
3. The escrow holder is fully empowered by the parties hereto to decline to perform some of the acts it is or may be instructed to perform under Agreement, if in the considered opinion and sound judgment of the escrow holder those acts are too onerous, hazardous, or not with the ordinary scope of the escrow holder's activity.
4. The parties hereto fully understand the total responsibility and agency authority of the escrow holder is limited to those actions requiring that performance and compliance by the principals that are identified as conditions precedent to the recording of the documents and delivery of the instruments to the respective parties entitled thereto, and the disbursement of funds in escrow as a consequence of said closing. The parties hereto, by execution of these instructions acknowledge that the escrow holder assumes no responsibility or liability for the supervision of any act or the performance of any condition which is a condition subsequent to the closing of this transaction.
5. Any provisions of the Agreement notwithstanding, the escrow holder shall have the right and authority to withhold any action and require the written consent of all necessary parties if, in the judgment of the escrow holder, such action calls or appears to require the use of discretionary judgment by the escrow holder.
6. "Close of Escrow" shall mean the day the deed and other papers are filed for record.
7. All adjustments and/or prorations are to be made on the basis of a thirty (30) day month, unless escrow holder is otherwise instructed in writing. Escrow holder is to use the information contained in the last available tax statement; rental statement as furnished by the Seller and beneficiary's statement provided by the Lender and fire insurance policies delivered into escrow as the basis of prorations.
8. Funds deposited into this escrow are to be maintained in a Federally Insured trust account, and any escrow related services provided to escrow holder by any depository bank or savings and loan association are hereby consented to and approved.
9. Proceeds of this escrow are to be disbursed by your check payable to the parties as their names are signed hereto, and your checks and documents may be mailed to the addresses set forth in these instructions.

10. If for any reason funds are retained or remain in escrow after the closing date, you are to deduct therefrom a reasonable monthly charge as custodian thereof of not less than Ten Dollars (\$10.00) per month.
11. You are instructed to furnish any broker or lender identified with this

transaction, or anyone acting on behalf of said lender, any information concerning this escrow, copies of all instructions, amendments, and statements upon request.

12. If the conditions of this escrow have not been complied with at the time provided herein, you are nevertheless to complete the same as soon as the conditions (except as to time) have been complied with, unless I shall have made written demand upon you for the return of money and/or instruments deposited by me. Either principal hereunder claiming to exercise the right of revocation of your agency as escrow holder of the escrow shall file notice and demand for revocation with your office, in writing, in duplicate. You shall promptly mail one copy of such writing to the other principal at his address stated herein. Unless written objection thereto shall be filed in your office by such other principal within ten (10) days, exclusive of Sundays and legal holidays; thereafter you are instructed to comply with such notice and demand upon payment of your accrued charges. In the event that such written objection shall be filed, you are authorized, but not obligated, to hold all money and instruments in this escrow pending agreement of the principals or order of a court of competent jurisdiction.

13. No notice, demand or change of instructions, except a demand for revocation made in accordance with the foregoing paragraph, shall be of any effect in this escrow unless given in writing by all parties affected thereby.

14. You shall be under no obligation or liability for a failure to inform either party regarding any sale, loan, exchange, or other transaction or facts within your knowledge, even though some concern the property described herein provided they do not prevent your compliance with these instructions, nor shall you be liable for the sufficiency or correctness as to any form, manner of execution, or validity of any instrument deposited into this escrow, nor as to the identity, authority, or rights of any person executing the same. Your liability as escrow holder shall be confined to the things specifically provided for in the written instructions in this escrow.

15. Should you, before or after the close of this escrow, receive or become aware of any conflicting demands or claims with respect to this escrow or the right of any of the parties hereto, or any money or property deposited herein or affected hereby, you shall have the absolute right at your election to discontinue any or all further acts on your part until such conflict is resolved to your satisfaction, and you shall have the further right to commence or defend any action or proceedings for the determination of such conflict. All parties hereto, jointly and severally, agree to pay on demand, as well as to indemnify and hold you harmless from and against all costs, damages, judgments, obligations, liabilities, and expenses of any

kind or nature, including reasonable attorney's fees, and including, but without limiting the generality of the foregoing, a suit of interpleader brought by you, which in good faith, you may incur or sustain in connection with or arising out of this escrow, and you are hereby given a lien upon all of the rights, titles, and interests of each of the undersigned in all escrowed papers and other properties and moneys deposited in the escrow to protect your rights and to indemnify and reimburse you under this agreement. In the event you file a suit of inter-pleader, you shall be ipso facto be fully released and discharged from all obligations further to perform any and all duties or obligations imposed upon you in this escrow.

16. Any amended, supplemental, or additional instructions given shall be subject to the foregoing conditions.

17. ALL PARTIES TO THIS ESCROW ACKNOWLEDGE THAT CHICAGO TITLE COMPANY DOES NOT PROVIDE LEGAL ADVICE NOR HAS IT MADE ANY INVESTIGATION, REPRESENTATIONS, OR ASSURANCES WHATSOEVER REGARDING THE COMPLIANCE OF THIS TRANSACTION WITH ANY TAX, SECURITIES, OR OTHER LAWS OF THE UNITED STATES OR THE STATE IN WHICH THE

TRANSACTION IS CONSUMMATED.

The escrow fee is payable upon close of this escrow and is to be divided between the parties as provided in the Agreement.

THE FOREGOING TERMS, CONDITIONS, PROVISIONS AND INSTRUCTIONS HAVE BEEN READ AND ARE UNDERSTOOD AND AGREED TO BY EACH OF THE UNDERSIGNED.

Seller(s):

Buyer(s):

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EXHIBIT C

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

Attention:

MAIL TAX STATEMENTS TO:
same address as above

(Above Space For Recorder's Use Only)

1 GRANT DEED

THE UNDERSIGNED GRANTOR DECLARES:

Documentary Transfer Tax is \$

- () computed on full value of property conveyed, or
- () computed on full value less value of liens and encumbrances remaining at time of sale
- () City of _____, _____ County.

FOR A VALUABLE CONSIDERATION, RECEIPT OF WHICH IS HEREBY ACKNOWLEDGED, _____, LLC, a California limited liability company ("Grantor"), hereby grants to _____ ("Grantee"), the real property located in the County of _____, State of California, described on Exhibit "A" attached hereto ("Property").

Dated: _____, 2000

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General Assignment

THIS GENERAL ASSIGNMENT ("Assignment") is executed this ___ day of _____, 2000, by and between _____ (herein referred to as ("Assignor") and _____, a _____ (herein referred to as the "Assignee"), with reference to the following:

RECITALS

A. Assignor has of even date herewith conveyed to Assignee that certain property described on Exhibit A attached hereto (herein referred to as the "Property"), pursuant to that certain Agreement of Purchase and Sale of Property and Escrow Instructions dated _____, 2000, (the "Sale Agreement") by and between Assignor, as "Seller", and _____, a California _____, as "Buyer".

B. In connection with the conveyance of the Property, Assignor and Assignee intend that Assignor's right, title and interest in and under any existing plans, specifications, license, permits, certificates, agreements and other instruments that pertain to the Property to be assigned, conveyed and transferred to Assignee.

NOW, THEREFORE, the parties hereto agree as follows:

Governmental Approvals and Certificates. To the extent permissible by law, Assignor hereby assigns, transfers and conveys to Assignee any and all of Assignor's right, title and interest in and under any existing grading and building permits, certificates of occupancy and subdivision maps and other permits, licenses, approvals and certificates that were obtained solely for the Property and that are not used or useful for any business purpose or any other property of Assignor other than the Property (collectively, "Governmental Approvals").

Plans and Specifications. Assignor hereby assigns, transfers and conveys to Assignee any and all of Assignor's right, title and interest in and to all existing maps, plans, specifications and related documents prepared or used by Assignor for the development and construction of any and all improvements located on the Property (collectively, "Plans").

Warranty. Assignor makes no representation or warranty whatsoever regarding the Governmental Approvals or Plans which are assigned, transferred and conveyed to Assignee, and such Governmental Approvals and Plans are assigned hereby without recourse "as is", "where is" and "with all faults" in existing condition as of the

Closing. ASSIGNOR HEREBY EXPRESSLY DISCLAIMS ANY IMPLIED WARRANTY INCLUDING, WITHOUT LIMITATION, ASSIGNABILITY, MERCHANTABILITY AND FITNESS FOR ANY PARTICULAR PURPOSE.

Successors and Assigns. This Assignment shall inure to the benefit of, and be binding upon, the successors, executors, administrators, legal representatives and assigns of the parties hereto.

Governing Law. This Assignment shall be construed under and enforced in accordance with the laws of the State of California.

Further Assurances. At no cost or liability to Assignor, Assignor shall

(i) cooperate with Assignee to fully vest in Assignee the right, title and interest herein intended to be assigned and (ii) execute and deliver to Assignee and documents, instruments or conveyances reasonably required to accomplish such transfer. If any dispute arises regarding this assignment, this dispute shall be litigated in accordance with Section 17 "Settlement of Disputes" of the Sales Agreement which is incorporated herein by reference.

IN WITNESS WHEREOF, Assignor and Assignee have executed this Assignment effective as of the date set forth above.

"Assignor" -----

"Assignee" -----

EXHIBIT E

ASSIGNMENT AND ASSUMPTION AGREEMENT

THIS ASSIGNMENT AND ASSUMPTION AGREEMENT ("Assignment") is made this _____ day of _____, 2000, by and between _____ ("Assignor") and _____ ("Assignee").

WITNESSETH:

WHEREAS, Assignor and Assignee are parties to that certain Purchase and Sale Agreement with Escrow Instructions (the "Agreement") dated as of _____ 2000, respecting the sale of certain "Property" (as described in the Agreement). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Agreement.

WHEREAS, under the Agreement, Assignor shall assign to Assignee and Assignee shall assume all of Assignor's right, title and interest in and to (i) the Leases, and (ii) the Service Contracts (defined below). The "Service Contracts" shall mean any and all management agreements, service contracts, brokerage agreements, art contracts, landscaping contracts, equipment, leases, maintenance, agreements and all other contracts for the provision of labor, services, materials or supplies to or for the benefit of the Property. A list of the Service Contracts are set forth on Schedule "1" attached hereto.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor hereby assigns, sells, transfers, sets over and delivers unto Assignee all of Assignor's estate, right, title and interest in and to the Leases and Service Contracts, and Assignee hereby accepts such assignment.

By acceptance of this Assignment, Assignee hereby assumes the performance of all of the terms, obligations, covenants and conditions imposed upon Assignor under the Leases and Service Contracts, accruing or arising on or after the date hereof (collectively, the "Assigned Obligations").

In the event any party hereto institutes any action or proceeding against the other party with regard to this Assignment, the prevailing party in such action shall be entitled to recover, in addition to the cost of the suit, its actual attorneys' fees.

This Assignment shall be binding upon and inure to the benefit of

the successors, assignees, personal representatives, heirs and legatees of all the respective parties hereto.

This Assignment and the obligations of the parties hereunder shall survive the closing of the transaction referred to in the Agreement and shall not be merged therein, shall be binding upon and inure to the benefit of the parties hereto, their respective legal representatives, successors and assigns, shall be governed by and construed in accordance with the laws of the State of California applicable to agreements made and to be wholly performed within said State and may not be modified or amended in any manner other than by a written agreement signed by the party to be charged therewith.

This Assignment may be executed in counterparts, each of which shall be an original and all of which counterparts taken together shall constitute one and the same agreement.

IN WITNESS WHEREOF, Assignor and Assignee have executed and delivered this Assignment as of the day and year first above written.

ASSIGNOR:

By:

Its:

ASSIGNEE:

By:

Its:

SCHEDULE 1

LIST OF SERVICE CONTRACTS

EXHIBIT F

FORM OF TENANT ESTOPPEL CERTIFICATE

Re: _____ (the "Property")

Suite _____

Dear _____:

It is our understanding that you are purchasing the _____ and, in connection therewith, have required this certification by the undersigned. Accordingly, the undersigned, as Tenant under that certain lease (the "Lease") dated _____, ____ (a copy of which is attached hereto and made a part hereof), made and entered into with _____ ("Landlord"), hereby certifies to you as follows:

1. Except as set forth below, Tenant has not assigned, sublet, mortgaged, pledged, hypothecated, encumbered or otherwise transferred all or any part of Tenant's interest in the Lease or the subject premises.

2. The term of the Lease commenced on _____, ____ and expires on _____, _____.

3. The Lease is in full force and effect and has not been amended, modified or supplemented in any way (except as set forth in Paragraph 4 below).

4. Attached hereto is a true and complete copy of the Lease. The Lease has (check one)

() not been assigned, sublet, mortgaged, pledged, hypothecated, encumbered or otherwise transferred, and there are no other agreements, written or oral, between Landlord and Tenant with respect to the Lease or the Premises.

() been assigned, sublet, mortgaged, pledged, hypothecated, encumbered or otherwise transferred by the following described agreements, copies of which are attached hereto:

-----.

5. Tenant has accepted, and is now in full, actual and complete possession of and is now conducting business in the premises.

6. Tenant acknowledges that the Lease will be assigned to _____ or its assigns (the "Purchaser").

7. The minimum monthly rental under the Lease is \$_____ and has been paid through _____. No rent under the Lease has been paid for more than thirty (30) days in advance of its due date. Tenant's percentage rental obligation under the Lease is _____.

8. A security deposit in the sum of \$_____ has been deposited with the Landlord.

9. All work required to be performed by the Landlord under the Lease has been satisfactorily completed and all required contributions by Landlord to Tenant on account of Tenant's improvements have been received.

10. To the best of Tenant's knowledge, there are no defaults on the part of Landlord or Tenant under the Lease and no event has occurred and no conditions exist which with the passing of time or giving of notice would constitute a

default under the Lease by the Landlord or Tenant hereunder.

11. Tenant is in full compliance with its obligations under the Lease to maintain insurance.

12. The Lease, amended as noted in Item 4 above, represents the entire agreement between Landlord and Tenant as to the premises.

All provisions of the Lease and the amendments thereto (if any) referred to above are hereby ratified by Tenant.

This certificate is being made with the knowledge that you may obtain financing to purchase the Property and that you and your lender may rely on the representations contained herein.

Sincerely,
Tenant:

FORM OF SELLER ESTOPPEL CERTIFICATE

Re: _____ (the "Property")
Suite _____

Dear _____:

In connection with your purchase of the referenced Property, you have required this certification by the undersigned. Accordingly, the undersigned, as the Landlord under that certain lease (the "Lease") dated _____, _____ (a copy of which is attached hereto and made a part hereof), made and entered into with _____ ("Tenant"), hereby certifies to you as follows:

1. Except as set forth below, to Landlord's knowledge and belief, Tenant has not assigned, sublet, mortgaged, pledged, hypothecated, encumbered or otherwise transferred all or any part of Tenant's interest in the Lease or the subject premises.

2. The term of the Lease commenced on _____, _____ and expires on _____, _____.

3. The Lease is in full force and effect and, to Seller's knowledge and belief, has not been amended, modified or supplemented in any way (except as set forth in Paragraph 4 below.

4. Attached hereto is a true and complete copy of the Lease. To Seller's knowledge, the Lease has (check one)

() not been assigned, sublet, mortgaged, pledged, hypothecated, encumbered or otherwise transferred. There are no other agreements, written or oral, between Landlord and Tenant

with respect to the Lease or the Premises.

() been assigned, sublet, mortgaged, pledged, hypothecated, encumbered or otherwise transferred by the following described agreements, copies of which are attached hereto:

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-----.

5. Tenant has accepted, and to Seller' knowledge and belief, is now in full, actual and complete possession of and is now conducting business in the premises.

6. Landlord acknowledges that the Lease will be assigned to _____ or its assigns (the "Purchaser").

7. The minimum monthly rental under the Lease is \$_____ and has been paid through _____. No rent under the Lease has been paid for more than thirty (30) days in advance of its due date. Tenant's percentage rental obligation under the Lease is _____.

8. A security deposit in the sum of \$_____ has been deposited with the Landlord.

9. To Landlord's knowledge and belief, all work required to be performed by the Landlord under the Lease has been satisfactorily completed and all required contributions by Landlord to Tenant on account of Tenant's improvements have been received.

10. To Landlord's knowledge and belief, there are no defaults on the part of Landlord or Tenant under the Lease and no event has occurred and no conditions exist which with the passing of time or giving of notice would constitute a default under the Lease by the Landlord or Tenant hereunder.

11. To Landlord's knowledge and belief, Tenant is in full compliance with its obligations under the Lease to maintain insurance.

12. To Landlord's knowledge and belief, the Lease, amended as noted in Item 4 above, represents the entire agreement between Landlord and Tenant as to the premises.

All provisions of the Lease and the amendments thereto (if any) referred to above are hereby ratified by Landlord.

This certificate is being made with the knowledge that you may obtain financing to purchase the Property and that you and your lender may rely on the representations contained herein.

Sincerely,

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Landlord:

DUE DILIGENCE MATERIALS

1. A CURRENT RENT ROLL, CERTIFIED BY THE SELLER TO BE TRUE AND CORRECT AS OF THE DATE ISSUED.

-- CURRENT AS OF 10/1/00
2. A COPY OF ALL LEASES AFFECTING THE PROPERTY, TOGETHER WITH ALL THE AMENDMENTS AND SUPPLEMENTS THERETO.

-- SEE ATTACHED LIST
3. ANY AND ALL OTHER CONTRACTS COVERING ANCILLARY INCOME.

-- SITE LICENSE AGREEMENT WITH EZIAZ, INC.
4. A COPY OF INCOME AND EXPENSE REPORTS RELATING TO THE OPERATION OF THE PROPERTY FOR 1998, 1999 AND 2000 YEAR-TO-DATE.

-- BUDGET COMPARISON DATED 1/00-9/00

-- BUDGET COMPARISON DATED 1/99-12/99

-- BUDGET COMPARISON DATED 6/98-12/98
5. COMMON AREA MAINTENANCE (CAM) CALCULATIONS SHOWING BASE YEAR AMOUNTS FOR ALL TENANTS.

-- SPREADSHEET WITH BASE YEAR CALCULATIONS
6. RECONCILIATION OF ACTUAL 1999 OPERATING EXPENSES FOR 1999 CAM SCHEDULE.

-- CAM REC'S AND 2000 ESTIMATED EXPENSES INDIVIDUAL SHEETS FOR EACH TENANT (DOESN'T INCLUDE CAM REC'S FOR TRADEWINDS ESCROW AND PANTHER SOFTWARE)
7. OPERATING BUDGET FOR 2000.
8. Tenant ledgers for the past twelve (12) months showing amounts billed, amounts paid and Tenant payment history.
9. Tenant improvements and leasing commissions incurred on all leases commencing during the previous twelve (12) months.
10. A copy of the most recent tax bill. Please include information on any pending appeals, pending or potential assessments and tax expense amounts included in operation expense amounts for tenants that have Prop. 13 protection, upon property sale.

-- Tax bills for 1997, 1998 and 1999
11. Copies of all monthly utility bills for 1999 and 2000 year-to-date

- SCE bills through 10/00
 - Refuse bills through 10/00
 - Water bills for through 10/00
12. A copy of all currently effective vendor service, property management or any other contracts that affect the Property.
- Maintenance Agreement with VTS (elevator)
 - Maintenance Agreement with Chemco Products
 - Maintenance Agreement with Exterminetics
 - Maintenance Agreement with Southwest Landscape
 - Maintenance Agreement with Temp Tec
 - Maintenance Agreement with Pacifica Capital Group
 - Listing agreement with Leonard & Ohren dated 3/25/99
13. Copy of all insurance policies currently in force on the Property.
14. Preliminary Title Report and copies of all underlying documents.
- Prelim Report dated 4/28/00
15. A copy of the most recent survey that seller has in its possession.
- ALTA survey dated 10/3/97
 - ALTA survey dated 3/25/90
16. A copy of all the available architectural and engineering plans and specifications and all tenant improvement plans which seller has in its possession.
- Available in Pacifica's offices for review
17. A copy of any and all Environmental Reports that seller has in its possession.
- Phase I dated 10/2/97
18. A copy of any and all soils, site assessment and physical inspection reports that seller has in its possession.
- Seismic Report dated 12/2/97
19. All equipment and/or building warranties, e.g., roof, compressors, etc.
- Not applicable. Pacifica's files are available for review.
20. A copy of any and all correspondence and documentation to any litigation that may be in process or anticipated.
- Letter from Ken Roberts on behalf of AppleOne/Howroyd-Wright
21. A copy of any and all reports or correspondence from any City, County or Federal Governmental Agencies regarding any aspect of the Property or its condition or operation.
- Not applicable. Pacifica's files are available for review.

BILL OF SALE

KNOW ALL MEN BY THESE PRESENTS that _____
 _____ ("Seller"), for good and valuable consideration, the
 receipt of which is hereby acknowledged, has sold, granted, assigned, conveyed
 and transferred to _____ ("Buyer"), and by these presents does hereby
 sell, grant, assign, convey and transfer to Buyer all of Seller's right, title
 and interest in and to the furnishings, equipment and other personal property
 (the "Personal Property") located on and used in connection with the Property,
 but specifically excluding the personal property listed on Schedule 1 attached
 hereto. Capitalized terms used herein and not otherwise defined shall have the
 meanings ascribed to them in the Purchase and Sale Agreement with Escrow
 Instructions dated _____ between Buyer and Seller.

TO HAVE AND TO HOLD the same unto Buyer, its successors and assigns to
 and for its own use and behalf forever.

This Bill of Sale shall be governed by and construed in accordance with
 the laws of the State of California.

This Bill of Sale shall be without representation or warranty by and
 without recourse to Seller.

IN WITNESS WHEREOF, Seller has executed this instrument on this ___ day
 of _____, 200__.

FIRST AMENDMENT TO PURCHASE AND SALE AGREEMENT
WITH ESCROW INSTRUCTIONS

This FIRST AMENDMENT TO PURCHASE AND SALE AGREEMENT WITH ESCROW INSTRUCTIONS (the "Amendment") is dated as of November 29, 2000, by and between PACIFICA CALIFORNIA/APOLLO, LLC, a California limited liability company ("Seller"), and SKECHERS USA, INC., a Delaware corporation ("Buyer"), with reference to the following facts:

RECITALS

A. Buyer and Seller entered into that certain Purchase and Sale Agreement with Escrow Instructions dated November 13, 2000 (the "Agreement").

B. Buyer and Seller hereby desire to modify the Agreement in accordance with the terms and conditions set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Buyer and Seller agree as follows:

1. INDEMNIFICATION BY SELLER. Seller hereby agrees to indemnify, defend and hold harmless Buyer from and against any and all damages, losses and expenses incurred by Buyer as a direct result of (i) the improper collection by Seller of operating expense payments from any tenants of the Property at any time prior to the Close of Escrow (but only to the extent (A) of operating expense overcharges by Seller to tenants during the calendar year 2000, or (B) no operating expense payments whatsoever were actually due and owing by such tenants under their respective leases to Seller for such period); and (ii) without limiting Buyer's obligations under Paragraph 11.6(f) of the Agreement, Seller's failure to pay any brokerage commissions relating to leases entered into prior to November 1, 2000 which remain due and owing and unpaid as of the Closing. The indemnifications set forth in this paragraph 1 shall survive the recordation of the Deed and the Closing for a period of twelve (12) months.

2. COMMISSIONS. Notwithstanding the terms of Paragraph 11.6(f) of the Agreement to the contrary, Buyer shall have no obligation to pay a brokerage commission to Leonard & Ohren as representatives of the landlord in connection with any future expansions lease renewals or rent increases which occur after the Closing, provided that (i) Buyer shall remain obligated to pay such commissions to Leonard & Ohren in connection with the lease of Suite 290 [to Multaler] and Suite 240 [to Buyer], and (ii) Leonard & Ohren shall be entitled to any such commissions in connection with its representation of any tenant(s) at the Property.

3. SERVICE CONTRACTS. Paragraph 7.1 of the Agreement is hereby modified by the addition of the following paragraph:

"7.1.16 Service Contracts. To Seller's knowledge, other than the service contracts provided to Buyer as part of the Due Diligence Materials or otherwise

delivered to Buyer on or before November 29, 2000, there are no service contracts relating to the Property which are not terminable on 30 days (or less notice."

4. TERMINATION OF CONTRACTS. Seller agrees to cause any brokerage listing agreement with Leonard & Ohren and any management agreement relating to

the Property to be terminated effected as of the Close of Escrow.

5. SELLER'S DEPOSITS. Without limiting the terms of Paragraph 11.3(g) of the Agreement, Seller agrees to deposit into Escrow or otherwise deliver to Buyer as of the Closing originals of all files in Seller's possession which relate to the Property (excepting therefrom tax returns, appraisals, analysis, reports or other records which are of a confidential or proprietary nature).

6. BUYER'S CONTINGENCIES. Buyer acknowledges that the Due Diligence Period has expired and that Buyer has not elected to terminate the Agreement in accordance with Paragraphs 5.1, 5.2 or 9.1, except that Buyer shall continue to have the rights set forth in Section 5.2 with respect to any additional title exceptions set forth in any supplemental title reports.

7. DEFINED TERMS. Except as expressly defined herein, all capitalized terms used in this Amendment shall have the meanings given to them in the Agreement.

8. COUNTERPARTS. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all of which, when taken together, shall constitute one and same instrument.

9. NO FURTHER MODIFICATION. Except as expressly amended hereby, the Agreement shall remain unchanged and continue in full force and effect.

10. FACSIMILE. Each party hereto, and their respective successors and assigns shall be authorized to rely upon the signatures of all of the parties hereto on this Amendment which are delivered by facsimile as constituting a duly authorized, irrevocable, actual current delivery of this Amendment with original ink signatures of each person and entity; provided, however, that each party hereto that delivers such facsimile signatures to another party hereto, covenants and agrees that it shall deliver an executed original of the same to the party(ies) so receiving the previous facsimile signatures within ten (10) days after the delivery of such facsimile signatures.

IN WITNESS WHEREOF, Seller and Buyer have executed this Amendment as of the date first set forth above.

SELLER:

BUYER:

PACIFICA CALIFORNIA/APOLLO,
LLC, a California limited liability
company

SKECHERS USA, INC., a Delaware
corporation

By: /s/ ILLEGIBLE

By: /s/ PHILIP PACCIONE

Name: 11/30/00

Name: Philip Paccione

Its: Member/Mgr

Its: General Counsel

By: /s/ DAVID WEINBERG

Name: David Weinberg

Its: CFO

[LOAN NO. 3587665-5]

(NOTE: THIS PROMISSORY NOTE MAY REQUIRE A BALLOON PAYMENT AT MATURITY)

PROMISSORY NOTE

\$10,850,000 (U.S.)

STOCKTON, CALIFORNIA
DECEMBER 27, 2000

FOR VALUE RECEIVED, the undersigned ("Borrower") promises to pay to the order of WASHINGTON MUTUAL BANK, FA, a federal association, at its office at 400 East Main Street, STA3MLM, Stockton, California 95290, Attention: Commercial Real Estate Asset Management, or at such other place as the holder of this Note (hereinafter, "holder") may from time to time designate in writing, the sum of TEN MILLION EIGHT HUNDRED FIFTY THOUSAND DOLLARS (\$10,850,000) in lawful money of the United States, with interest thereon from the date of this Note until paid at the rates set forth below, computed on monthly balances. Interest for each full calendar month during the term of this Note shall be calculated on the basis of a 360-day year and twelve 30-day months. Interest for any partial calendar month at the beginning or end of the term of this Note shall be calculated on the basis of a 360-day year and the actual number of days in that month.

SECTION 1. INTEREST RATE.

The per annum interest rate hereunder (the "Note Rate") shall be seven and seventy-nine one-hundredths percent (7.79%).

SECTION 2. MONTHLY PAYMENTS.

Beginning on February 1, 2001 and on the first day of each and every calendar month thereafter throughout the term of this Note (the "Monthly Payment Dates"), Borrower shall make monthly payments of principal and interest (the "Monthly Payment Amounts") to holder in the amount of Eighty-Two Thousand Two Hundred Thirty-Eight and 31/100 Dollars (\$82,238.31).

SECTION 3. MATURITY.

Unless sooner repaid by Borrower, the entire unpaid principal balance of this Note, plus all accrued but unpaid interest, and all other amounts owing hereunder or under the Security Documents (as defined in Section 7) shall be due and payable in full on January 1, 2011 (the "Maturity Date").

-1-

SECTION 4. APPLICATION OF PAYMENTS.

Payments shall be applied: (a) first, to the payment of accrued interest; (b) second, at the option of holder, to the payment of any other amounts owing under this Note or secured by the Security Documents, other than accrued interest and principal, including, but not limited to advances holder may have made for attorneys' fees or for taxes, assessments, insurance premiums, or other charges on any property given as security for this Note and late charges due hereunder; and (c) third, to the reduction of principal of this Note.

SECTION 5. PREPAYMENT.

Borrower may prepay its obligation under this Note in full upon thirty (30) days' prior written notice to holder, or in part on any Monthly Payment

Date, upon payment of a premium (the "Prepayment Premium") equal to the greater of:

- (a) the "Present Value Premium" (as defined below); or
- (b) one percent (1%) of the amount prepaid.

The "Present Value Premium" is the present value, as of the date of prepayment, of a stream of monthly interest payments for the period remaining to the Maturity Date of this Note, computed on the basis of (a) the amount prepaid and (b) an interest rate equal to the amount, if any, by which (i) the Note Rate exceeds (ii) the "Reinvestment Rate" (as defined below). Each of such monthly interest payments shall be discounted to present value at the "Reinvestment Rate" from the applicable Monthly Payment Date to the date of prepayment.

The "Reinvestment Rate" shall be based on the weekly average treasury constant maturity yields reported in Federal Reserve Statistical Release H.15 (519), Selected Interest Rates ("Publication H.15"). The figures in the most recent edition of Publication H.15 available as of the prepayment date that appear in the column for the week ending immediately preceding the date of such edition shall be used for purposes of the Reinvestment Rate calculation. The Reinvestment Rate shall be the yield adjusted to constant maturities stated in Publication H.15 for the United States government security having a maturity that most closely corresponds to the Maturity Date of this Note, determined by linear interpolation between the yields reported in Publication H.15, if necessary.

Holder may, in its reasonable discretion, select a comparable alternative source of the Reinvestment Rate if Publication H.15 ceases to be available, or if the method of calculating treasury constant maturity yield figures set forth therein changes so as to substantially impact the calculation of the Reinvestment Rate.

Borrower expressly waives any right to prepay this Note except as provided in this Section 5. Therefore, if the maturity of this Note is accelerated for any reason, including, without limitation, the occurrence of any event of default hereunder or under the Deed of Trust (as defined in Section 7), including without limitation Section 4.13 of the Deed of Trust,

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or any other document that evidences or secures the repayment of this Note, then any subsequent tender of payment of this Note, including any redemption following foreclosure of the Deed of Trust, shall constitute an evasion of the restrictions on prepayment set forth herein and shall be deemed a voluntary prepayment. Accordingly, holder may impose as a condition to accepting any such tender, and may bid at any sheriff's or trustee's sale under the Deed of Trust, and/or include in any complaint for judicial foreclosure or for any claim in bankruptcy, as part of the indebtedness evidenced by this Note and secured by the Deed of Trust, the Prepayment Premium that would have otherwise been payable hereunder for prepayment of this Note occurring on the date of such acceleration. The Prepayment Premium will not be payable for prepayment of this Note occurring as a result of the application of insurance and condemnation proceeds to the reduction of the unpaid principal balance of this Note.

Borrower acknowledges that: (i) it is a knowledgeable real estate investor, (ii) it fully understands the effect of the above waiver, (iii) the making of the loan evidenced by this Note at the interest rates set forth above is sufficient consideration for such waiver, and (iv) holder would not make the loan evidenced by this Note without such waiver.

Borrower acknowledges that any statement made by holder setting forth the amount of the Prepayment Premium shall only be binding upon holder if such statement is made in writing and that the amount of the Prepayment Premium set forth in such statement is subject to change and is valid only for the date of

such statement.

Borrower hereby expressly waives any right it may have under California Civil Code 2954.10 to prepay this Note, in whole or in part, without prepayment charge, upon acceleration of the Maturity Date of this Note, and agrees that if for any reason a prepayment of any or all of this Note is made, whether voluntarily or upon or following any acceleration of the Maturity Date of this Note by holder, Borrower shall pay the Prepayment Premium calculated pursuant to this Section 5. By signing this provision in the space provided below, Borrower hereby declares and agrees that holder's agreement to make the loan evidenced by this Note at the Note Rate and for the term set forth in this Note constitutes adequate consideration, given individual weight by Borrower, for this waiver and agreement.

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

By

Michael Greenberg, President

By /s/ PHILIP C. PACCIONE

Philip G. Paccione, General Counsel and
Secretary

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SECTION 6. LATE CHARGE.

If any amount payable hereunder is paid more than ten (10) business days after the due date thereof, Borrower promises to pay a late charge of five percent (5%) of the delinquent amount as liquidated damages for the extra expense in handling past due payments.

SECTION 7. SECURITY.

This Note is secured by a deed of trust, security agreement, assignment of leases and rents, and fixture filing (the "Deed of Trust") of even date herewith and executed by Borrower, encumbering real property located in Los Angeles County, California, and by an assignment of leases and rents (the "Assignment of Leases and Rents") made by Borrower as assignor in favor of Lender as assignee. The Deed of Trust, the Assignment of Leases and Rents and any and all other documents securing this Note are collectively referred to as the "Security Documents," provided, however, that "Security Documents" specifically shall not mean and shall not include the certificate and indemnity agreement regarding hazardous substances being delivered concurrently herewith to holder by Borrower (the "Indemnity Agreement"). The real property and the other collateral provided for in the Security Documents are collectively referred to as the "Property."

SECTION 8. NOTICE AND OPPORTUNITY TO CURE DEFAULTS.

Any provision of this Note or the Security Documents seemingly to the contrary notwithstanding, holder agrees not to exercise any of the remedies for default permitted hereunder or under the Security Documents unless and until:

(a) If the default consists of the violation of a covenant to pay money (other than the covenant to repay the balance due hereunder at maturity), holder has given Borrower at least ten (10) business days' written notice of such default and such default has not been cured within ten (10) business days after the receipt of such written notice; or

(b) If the default consists only of a violation of any provision

of this Note or the Security Documents other than a covenant to pay money or a covenant to obtain or renew insurance policies or pay insurance premiums as required by the Deed of Trust unless and until holder has given Borrower thirty (30) days' written notice of such default and such default has not been cured within such thirty (30) day period, provided that if the default is one which can be cured, but for causes beyond the reasonable control of Borrower cannot with due diligence be cured within such thirty (30) day period, and provided further that no monetary default occurs while the cure period continues for the subject nonmonetary default, such thirty (30) day period shall be deemed extended for such time as is necessary to cure the default (but in no event longer than ninety (90) days from the date of default) if Borrower gives notice of its intent to cure or cause such default to be cured prior to the expiration of the initial thirty (30) day cure period, thereafter proceeds promptly with and prosecutes with all due diligence all steps necessary to cure the same, and provides such written status reports to

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holder regarding the progress of such cure as holder may reasonably request from time to time while such cure progresses.

Nothing contained in this Section 8 shall be construed as imposing any obligation on holder other than to postpone the exercise of its remedies for default until the expiration of the applicable grace period, if any, specified herein. Failure to give opportunity to cure defaults in the manner herein provided shall not in any way invalidate or prohibit holder from exercising any of the remedies for default permitted hereunder or under the Security Documents (other than to prohibit holder from proceeding further until the applicable grace period, if any, for the curing of such default has expired), or give rise to liability for damages suffered by Borrower or any other party on account of such failure.

The provisions of subparagraph (a) of this Section 8 shall not affect Borrower's liability for late charges under Section 6 with respect to any payment that is more than ten (10) days past due.

SECTION 9. DEFAULT; REMEDIES.

If default is made in the payment of any amount payable hereunder when due or in the keeping of any covenant of the Security Documents and such default is not cured as provided in Section 8 hereof, then, at the option of holder, the entire indebtedness evidenced hereby shall become immediately due and payable. Upon default, and without notice or demand, all amounts owed under this Note, including all accrued but unpaid interest, shall thereafter bear interest at the rate of five percent (5%) per annum above the Note Rate (the "Default Rate") until such default is cured. Failure to exercise any option granted to holder hereunder shall not waive the right to exercise the same in the event of any subsequent default. Interest at the Default Rate shall commence to accrue upon default under this Note, including the failure to pay this Note at maturity.

SECTION 10. ATTORNEYS' FEES.

In the event of any default under this Note, or in the event that any dispute arises relating to the interpretation, enforcement, or performance of this Note, holder shall be entitled to collect from Borrower on demand all reasonable fees and expenses incurred in connection therewith, including but not limited to fees of attorneys, accountants, appraisers, environmental inspectors, consultants, expert witnesses, arbitrators, mediators, and court reporters. Without limiting the generality of the foregoing, Borrower shall pay all such costs and expenses incurred in connection with: (a) arbitration or other alternative dispute resolution proceedings, trial court actions, and appeals; (b) bankruptcy or other insolvency proceedings of Borrower, any guarantor or other party liable for any of the obligations of this Note or any party having any interest in any security for any of those obligations; (c) judicial or nonjudicial foreclosure on, or appointment of a receiver for, any property

securing this Note; (d) postjudgment collection proceedings; (e) all claims, counterclaims, cross-claims, and defenses asserted in any of the foregoing whether or not they arise out of or are related to

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this Note or any security for this Note; (f) all preparation for any of the foregoing; and (g) all settlement negotiations with respect to any of the foregoing.

SECTION 11. SALE, TRANSFER OR ENCUMBRANCE OF PROPERTY.

The Deed of Trust contains the following provision, by which Borrower agrees to be bound (in such provision, the term "Trustor" means Borrower and "Beneficiary" means holder):

4.13 SALE, TRANSFER, OR ENCUMBRANCE OF PROPERTY. Trustor shall not, without the prior written consent of Beneficiary, sell, transfer or otherwise convey the Property or any interest therein, further encumber the Property or any interest therein, cause or permit any change in the entity, ownership or control of Trustor or agree to do any of the foregoing without first repaying in full the Note and all other sums secured hereby.

Consent to any one such occurrence shall not be deemed a waiver of the right to require consent to any future occurrences.

In each instance in which a sale, transfer or other conveyance of the Property occurs and regardless of whether Beneficiary's consent thereto is given, waived or denied or whether Beneficiary elects to accelerate the maturity date of the Note, Trustor and its successors shall be jointly and severally liable to Beneficiary for the payment of a transfer fee (the "Transfer Fee") of one percent (1.00%) of the unpaid principal balance of the Note as of the date of such sale, transfer or other conveyance. Such fee shall be payable on demand, shall bear interest from ten (10) days after such demand to and including the date of collection at the Default Rate (as defined in the Note), and shall be secured by this Trust Deed. Beneficiary's waiver of such fee in whole or in part for any one sale, transfer or other conveyance shall not preclude the imposition thereof in any other transaction.

Notwithstanding the foregoing, Beneficiary's consent will not be required, and the one percent (1.00%) Transfer Fee will not be imposed, for the transfer of the publicly held shares of stock of Trustor, or for the transfer of any of the privately held shares of stock of Trustor so long as Robert Greenberg retains Control (as defined below) of Trustor.

Also notwithstanding the foregoing, Beneficiary will not unreasonably withhold its consent, and upon granting of such consent will not require payment of the one percent (1.00%) transfer fee, to a one-time transfer of the Property by Trustor to an Affiliate of Trustor, provided, however, that Trustor must notify Beneficiary in writing of such proposed transfer and the identity of the proposed transferee at least 30 days before the anticipated transfer; shall provide Beneficiary with such financial information regarding the proposed transferee as

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Beneficiary may reasonably require, which information must be satisfactory to Beneficiary in its discretion; and shall provide Beneficiary, at Trustor's expense, with an endorsement to Beneficiary's mortgagee's policy of title insurance insuring the lien hereof, insuring

that such transfer does not affect the validity or priority of the lien hereof. In addition, Beneficiary may require that the prospective transferee execute and deliver to Beneficiary an assumption agreement with respect to the loan hereby secured. In no event shall Beneficiary's consent to a transfer of title be deemed a release of the original Trustor identified herein from its liability for repayment of the Note and for performance of the other obligations of such Trustor under the Loan Documents. For purposes hereof, an "Affiliate" of Trustor means a person or entity that is in Control of, under common Control with, or Controlled by, Trustor.

For purposes hereof, "Control" of an entity means the power or authority, through the ownership (directly or as a trust beneficiary) of voting securities; by contract; or otherwise, to direct the management of such entity.

SECTION 12. MISCELLANEOUS.

(a) Every person or entity at any time liable for the payment of the indebtedness evidenced hereby waives all taking of formal collection steps, including, but not limited to, presentment for payment, demand, and notice of nonpayment, protest, dishonor or acceleration of this Note. Every such person or entity further hereby consents to any extension of the time of payment hereof or other modification of the terms of payment of this Note, the release of all or any part of the security herefor, or the release of any party liable for the payment of the indebtedness evidenced hereby at any time and from time to time at the request of anyone now or hereafter liable therefor. Any such extension or release may be made without notice to any of such persons or entities and without discharging their liability. All payments required to be made under this Note, the Security Documents, the Indemnity Agreement and the other documents, instruments and agreements entered into in connection therewith (collectively, the "Loan Documents") shall be made without offset or deduction of any kind.

(b) Each person or entity who signs this Note is jointly and severally liable for the full repayment of the entire indebtedness evidenced hereby and the full performance of each and every obligation contained in the Security Documents.

(c) The headings to the various sections have been inserted for convenience of reference only and do not define, limit, modify, or expand the express provisions of this Note.

(d) Time is of the essence under this Note and in the performance of every term, covenant, and obligation contained herein.

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(e) This Note is made with reference to and is to be construed in accordance with the laws of the State of California.

(f) This Note and the other Loan Documents constitute the final expression of the entire agreement of the parties with respect to the transactions set forth therein. No party is relying on any oral agreement or other understanding not expressly set forth in the Loan Documents. The Loan Documents may not be amended or modified except by means of a written document executed by the party sought to be charged with such amendment or modification.

(g) In the event holder at any time discovers that this Note or the Security Instrument or any of the other Loan Documents contains an error caused by a clerical mistake, calculation error, computer error, printing error or similar error, Borrower shall, upon notice from holder, re-execute any such Loan Document as necessary to correct any such error(s), and Borrower shall also not hold holder responsible for any damage suffered by Borrower resulting from any such error. In addition, if any of the Loan Documents are lost, stolen, mutilated or destroyed, Borrower shall execute and deliver to holder on holder's

request a duplicate of such Loan Document identical in form and content, and which will be identical in effect for all purposes, provided holder delivers to Borrower an indemnification agreement in favor of Borrower protecting Borrower from any damages arising from such re-execution.

DATED as of the day and year first above written.

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

By /s/ MICHAEL GREENBERG

Michael Greenberg, President

By /s/ PHILIP C. PACCIONE

Philip G. Paccione, General Counsel and
Secretary

ASSIGNMENT AND ASSUMPTION AGREEMENT

THIS ASSIGNMENT AND ASSUMPTION AGREEMENT ("Assignment") is made this 27th day of December 2000, by and between Pacifica California/Apollo, LLC, a California limited liability company ("Assignor"), and Skechers USA, Inc., a Delaware corporation ("Assignee").

WITNESSETH

WHEREAS, Assignor and Assignee are parties to that certain Purchase and Sale Agreement with Escrow Instructions (the "Agreement") dated as of November 13, 2000, respecting the sale of certain "Property" (as described in the Agreement). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Agreement.

WHEREAS, under the Agreement, Assignor shall assign to Assignee and Assignee shall assume all of Assignor's right, title and interest in and to (i) the Leases, and (ii) the Service Contracts (defined below). The "Service Contracts" shall mean any and all management agreements, service contracts, brokerage agreements, art contracts, landscaping contracts, equipment, leases, maintenance, agreements and all other contracts for the provision of labor, services, materials or supplies to or for the benefit of the Property. A list of the Service Contracts are set forth on Schedule "1" attached hereto.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor hereby assigns, sells, transfers, sets over and delivers unto Assignee all of Assignor's estate, right, title and interest in and to the Leases and Service Contracts, and Assignee hereby accepts such assignment.

By acceptance of this Assignment, Assignee hereby assumes the performance of all of the terms, obligations, covenants and conditions imposed upon Assignor under the Leases and Service Contracts, accruing or arising on or after the date hereof (collectively, the "Assigned Obligations").

In the event any party hereto institutes any action or proceeding against the other party with regard to this Assignment, the prevailing party in such action shall be entitled to recover, in addition to the cost of the suit, its actual attorneys' fees.

This Assignment shall be binding upon and inure to the benefit of the successors, assignees, personal representatives, heirs and legatees of all the respective parties hereto.

This Assignment and the obligations of the parties hereunder shall survive the closing of the transaction referred to in the Agreement and shall not be merged therein, shall be binding upon and inure to the benefit of the parties hereto, their respective legal representatives, successors and assigns, shall be governed by and construed in accordance with the laws of the State of California application to agreements made and to be wholly

performed within said State and may not be modified or amended in any manner other than by a written agreement signed by the party to be charged therewith.

This Assignment may be executed in counterparts, each of which shall be an original and all of which counterparts taken together shall constitute one and the same agreement.

IN WITNESS WHEREOF, Assignor and Assignee have executed and delivered this Assignment as of the day and year first above written.

ASSIGNOR: PACIFICA CALIFORNIA/APOLLO, LLC,
a California limited liability company

By: /s/ STEVEN OHREN

Steven Ohren, Manager

ASSIGNEE: SKECHERS USA, INC.,
a Delaware corporation

By: /s/ PHILIP C. PACCIONE

Name: Philip C. Paccione

Title: General Counsel and Secretary

By: /s/ MICHAEL GREENBERG

Name: Michael Greenberg

Title: President

MONY Loan No. 101183
Ontario, California

LOAN AGREEMENT

THIS LOAN AGREEMENT (this "Agreement") is made as of the 21st day of December, 2000, by and between YALE INVESTMENTS, LLC, a Delaware limited liability company (the "Borrower"), and MONY LIFE INSURANCE COMPANY, a New York corporation ("Lender").

In consideration of the mutual covenants and agreements contained herein, Lender agrees to make and Borrower agrees to accept a loan (the "Loan") in the original principal amount of Seven Million Eight Hundred Fifty Thousand Dollars (\$7,850,000.00 U.S.), pursuant to that certain Mortgage Loan Application dated November 1, 2000, executed by Skechers U.S.A., Inc., a Delaware corporation, as applicant on behalf of the Borrower pending Borrower's formation, and accepted by Lender on November 29, 2000 (the "Commitment"), and in accordance with and subject to the terms and conditions set forth below.

1. AGREEMENT TO LEND

1.1 LOAN. In reliance on Borrower's prompt and faithful performance of all the terms, provisions and conditions of the Commitment, Lender agrees to advance the Loan to Borrower subject to all the terms and conditions contained in this Agreement and any and all documents executed by Borrower to evidence or secure, or otherwise in connection with, the Loan (collectively with this Agreement, the "Loan Documents"); provided, however, that that Borrower's Certificate and Indemnity Regarding Hazardous Substances executed by Borrower on or about the date hereof, shall not be a Loan Document, and shall be and constitute at all times, an unsecured obligation of Borrower.

1.2 ADVANCE OF FUNDS. Borrower's execution of this Agreement constitutes authorization by Borrower to Lender to proceed with advancing the sum of \$7,850,000 for the account of Borrower as the proceeds of the Loan (the "Loan Proceeds"), by wiring the sum of \$8,085,500 (representing said Loan proceeds plus the sum of \$235,500 as a refund of Borrower's "Commitment Fee") to Stewart Title Company ("Escrow Agent"). Borrower acknowledges that the Loan Proceeds so advanced shall be evidenced by and bear interest at the rate set forth in that certain Loan Document entitled Promissory Note of even date herewith made by Borrower payable to the order of Lender in the original principal amount of the Loan (the "Note"), from the day on which such funds are first so advanced by Lender ("Closing Date"), notwithstanding any delay occasioned by any cause whatsoever in the receipt of such funds by Escrow Agent or in the disbursement of such funds to or for the account of Borrower.

1.3 AMOUNTS IN EXCESS OF LOAN. Lender shall have the right, but not the obligation, to fund amounts in excess of the Loan from time to time to pay accrued and unpaid interest owing on the Loan or to correct any defaults in any of the Loan Documents (Borrower agreeing that the correcting of a default by Lender shall not cure any Event of Default under this Agreement). Such excess amounts when funded shall be deemed evidenced by

the Note, shall bear interest at the Augmented Rate (as defined in the Note), shall be covered by any guaranty furnished to Lender in

connection with the Loan, and shall be secured and otherwise evidenced by the other Loan Documents and all other security and collateral for the Loan. Borrower hereby agrees to execute additional notes, mortgages, security agreements, and other additional Loan Documents, and modifications thereto, promptly upon request by Lender, in favor of Lender, evidencing and securing any amounts funded in excess of the Loan.

2. BORROWER REPRESENTATIONS, WARRANTIES, CERTIFICATIONS, CONFIRMATIONS, COVENANTS AND AGREEMENTS

Borrower, having had the benefit of legal counsel, warrants, represents, certifies, confirms, covenants and agrees, with and to Lender, that each of the following statements are or will be true and correct as of the Closing Date, and shall remain true during the term of the Loan secured hereby:

2.1 CONDITIONS PREVENTING COMPLIANCE. To the best knowledge of Borrower, no conditions exist which would prevent Borrower or any guarantor of the Note ("Guarantor") from fully complying with the provisions of this Agreement or of any of the other Loan Documents, within the applicable time limits herein or therein set forth.

2.2 LAND AND IMPROVEMENTS. Borrower has good and marketable indefeasible fee simple title to that certain real property located in San Bernardino County, California, more particularly described on EXHIBIT "A" attached hereto and by this reference made a part hereof (the "Land"), which is improved by a newly constructed industrial building containing approximately 262,854 square feet of net rentable area and on-site, striped parking spaces for 147 standard-sized American automobiles, 49 trucks, and 7 handicap vehicles located on the Land (collectively, the "Improvements"; the Improvements and the Land being collectively referred to herein as the "Real Property").

2.3 NON-FOREIGN STATUS; DUE ORGANIZATION; NO BANKRUPTCY; PENSION STATUS.

(A) Borrower is and will continue to be a limited liability company duly organized and validly existing under the laws of the State of California. Borrower has all requisite power and authority to carry on its business, to hold title to the Real Property, to enter into this Agreement and the Loan Documents and to consummate the transactions contemplated hereby and thereby. Guarantor is and will continue to be a corporation duly organized and validly existing under the State of Delaware and has all requisite power and authority to execute the instruments to be executed by Guarantor as set forth in the Commitment (the "Guarantor Documents").

(B) Borrower: (i) does not hold, directly or indirectly, any ownership interest (legal or equitable) in any real or personal property other than the interest which it owns in the Real Property and personal property located in and used in connection with the ownership and operation of the Real Property; (ii) is not a shareholder or partner or member of any other entity; and (iii) does not conduct any other business other than the ownership, management and operation of the Real Property.

(C) Neither Borrower nor any Guarantor is a non-resident alien, foreign corporation, foreign partnership, foreign trust, foreign estate or other "foreign person" (as these terms are defined in the United States Internal Revenue Code and the regulations promulgated pursuant thereto (collectively, the "I.R.C.")); Borrower's social security number or United States Taxpayer Identification Number (whichever is applicable)

is 200033210039 and its office address is 228 Manhattan Beach Boulevard, Manhattan Beach, California 90266. Borrower understands that Lender is relying on and will rely on the above certification in determining whether withholding is required pursuant to Section 1445 of the I.R.C. Borrower further understands that the above certification may be disclosed to the Internal Revenue Service by Lender and that any false statement Borrower has made therein could be punished by fine, imprisonment, or both. Neither Borrower nor Guarantor is currently in or contemplating dissolution, suspension, termination, liquidation, partition and/or winding up.

(D) Neither Borrower nor any Guarantor nor all or any portion of the Real Property or other property of Borrower or any Guarantor is the subject of or under the jurisdiction of (i) any voluntary or involuntary proceeding under any applicable bankruptcy, insolvency, debtor relief or other similar law; or (ii) the appointment of or possession by any receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official; nor has Borrower (A) made any general assignment for the benefit of creditors; (B) generally failed to pay their debts as they became due; or (C) taken any action in furtherance of any of the foregoing.

(E) The execution, delivery and performance of the Loan Documents and Guarantor Documents (i) have been duly authorized in accordance with the provisions of the Borrower's and Guarantor's, as applicable, organizational documents and in accordance with all other of the governing documents by which the operations and administration of Borrower and Guarantor are controlled (collectively, the "Governing Instruments"), and no other action or authority is requisite or will be required for the execution, delivery and performance of the Loan Documents or Guarantor Documents, (ii) create legal, valid and binding obligations of Borrower and Guarantor enforceable in accordance with their terms, subject to bankruptcy and similar laws and general equitable principles; (iii) do not require the approval or consent of any Governmental Authority (as hereinafter defined) having jurisdiction over Borrower, any Guarantor or the Real Property; (iv) do not and will not constitute a violation of, or default under, the Governing Instruments of Borrower or Guarantor or any law, statute, ordinance, rule or regulation applicable to Borrower or Guarantor; and (v) will not be in contravention of any court or administrative order or ruling applicable to Borrower, Guarantor or the Real Property. Any and all such authorizations remain in full force and effect and have not been amended, revoked or terminated. As used herein, "Governmental Authority" means the United States of America, the state wherein the Real Property is located, the state under the laws of which Borrower or any Guarantor is organized, any political subdivision of any of them, and any court, agency, department, commission, board, bureau or instrumentality of any of them.

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(F) The Real Property is owned by Borrower, which is not a pension plan or employee benefit plan and is not controlled by a pension plan or employee benefit plan. Borrower does not have, as a partner (general or limited), shareholder, member or other principal, any pension plan or employee benefit plan. Borrower (and its constituents) and Lender are not parties in interest and the Loan will not constitute a prohibited transaction under the Internal Revenue Code or the Employee Retirement Income Security Act of 1974.

2.4 TAXES PAID. Borrower has filed and will file all tax returns and reports required by law. Borrower has paid, to the extent now due and payable, all taxes, assessments, contributions, fees, and other governmental charges upon Borrower and upon the Real Property. No tax

liens have been filed against any assets of Borrower.

2.5 NO VIOLATION. There is no violation of or default with respect to any term or provision of any mortgage, deed of trust, security deed, indenture, contract, agreement or instrument applicable to Borrower or the Real Property, or by which Borrower or the Real Property is bound, and the execution, delivery, performance of and compliance with each and every one of the Loan Documents will not result in any such violation and will not be in conflict with or constitute a default under any such term or provision, or result in the creation of any lien, charge, or encumbrance on any of the properties or assets of Borrower other than the Loan Documents. No consent of any other person or entity to such execution, delivery and/or performance is required to render the Loan Documents as valid, binding and enforceable in accordance with their terms.

2.6 LITIGATION. No actions, suits, or proceedings are pending or, to the best knowledge of Borrower, threatened against or affecting Borrower, any Guarantor, or the Real Property or any other assets subject to the Loan Documents, in any court of law or in equity, or before any governmental department, commission, board, bureau, agency, or other instrumentality which might materially adversely affect the ability of Borrower or any Guarantor to perform their obligations hereunder or under any of the Loan Documents or Guarantor Documents or might adversely affect the priority of Lender's first lien on the Real Property.

2.7 NO CONFLICT. The consummation of the transactions contemplated herein and by the Loan Documents or Guarantor Documents will not conflict with or result in a breach of any law or any regulation, order, writ, injunction or decree of any court or governmental instrumentalities, domestic or foreign. Neither Borrower nor any Guarantor is in violation or in default of any applicable law or regulation which materially affects the business, properties (including the Real Property), condition (financial or otherwise) or operation of Borrower or any Guarantor. Neither Borrower nor any Guarantor is in violation or in default of any order, writ, injunction, demand or decree of any court, or any indenture, agreement or other instrument under which Borrower, any Guarantor or the Real Property is or may be bound, the violation or default of which might have an adverse effect on the business, properties, condition (financial or otherwise) or operations of Borrower or any Guarantor or might result in the acceleration of the maturity of any of their indebtedness.

2.8 NO CONSENT REQUIRED. No consent, approval, or authorization of or registration, declaration or, filing with any governmental or public body or authority is required (or, if required, such consent, approval, order, or authorization will be obtained prior to the date it is required) in connection with the valid execution and delivery of each of the Loan Documents, or the carrying out of or performance of any of the transactions required or contemplated hereby or thereby. Borrower has not received any material order or notice from any governmental agency regarding the Real Property which it has not delivered promptly to Lender.

2.9 ACCESS. The Land is contiguous to public streets, roads or highways, and vehicular and pedestrian access from the Land is permitted to any such streets, roads or highways.

2.10 CONDEMNATION. No condemnation or eminent domain proceeding has been commenced or, to the best knowledge of Borrower, threatened against the Real Property or any portion thereof.

2.11 BINDING OBLIGATION. The Loan Documents and the Guarantor Documents will be duly executed and delivered and are and will be valid and legally binding obligations of Borrower and any Guarantor. Borrower has thoroughly read and reviewed the terms and provisions of this and all other Loan Documents and such terms and provisions are clearly understood and have been fully and unconditionally consented to by Borrower. Borrower has had a complete and sufficient opportunity for advice of legal counsel of its own selection, in regard to understanding the terms, meaning and effect of this and all other Loan Documents. Borrower has freely and voluntarily executed this Agreement and the other Loan Documents with full knowledge of the consequences thereof and without duress or undue influence. Neither Borrower nor any Guarantor has relied on representations, either written or oral, express or implied, made to it by Lender or any attorney or agent acting on behalf of Lender, which are not contained in the Loan Documents.

2.12 PROCEEDS AND THEIR USE, SET-OFFS AND DEFENSES. Borrower acknowledges that it has received the full amount of the Loan Proceeds. The proceeds of the Loan will be used by Borrower exclusively for commercial, investment or other business purposes and not for personal, family or household purposes. There are no setoffs or defenses to Borrower's obligation to pay the indebtedness evidenced by the Note or otherwise perform pursuant to this and the other Loan Documents.

2.13 RENT ROLL AND LEASES. EXHIBIT "B" attached hereto and by this reference made a part hereof is a true, accurate and complete rent roll (the "Rent Roll") indicating all leases and subleases currently in effect with respect to any portion of the Real Property (collectively the "Leases"). In connection with the Leases, Borrower represents and warrants as follows:

(A) The Leases previously delivered to Lender are complete and correct copies of the original Leases, including all amendments, addenda, riders, subleases and other documentation relative thereto, and all Leases are in full force and effect without default and are unmodified except as noted in the Rent Roll or in any tenant estoppel statement previously delivered to Lender;

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(B) Borrower is the lessor under the Leases and has not assigned or agreed to assign (except to Lender) its interest as lessor or master lessor, as appropriate, under the Leases in whole or in part;

(C) No monetary concessions or inducements of any kind or nature have been given or promised to the tenants under the Leases (individually, a "Lessee" and collectively, the "Lessees"), and no Lessee has any existing defense or claim of offset against Borrower or to such Lessee's payment and performance of its obligations under its Lease, except as noted in the Rent Roll or in any tenant estoppel statement previously delivered to Lender by such Lessee;

(D) No Lessee has or can acquire any right to terminate such Lessee's Lease, or cease paying the full rent thereunder, before the end of the term of such Lease except as set forth in the Rent Roll;

(E) The Lessees are each in possession and actually paying rent, in the sums and at the times and under the terms as set forth in the Leases, except as disclosed in the Rent Roll;

(F) No Lessee has an option or right of first refusal or other right to purchase all or any portion of the Real Property, except as set forth

in the Rent Roll or in a tenant estoppel statement previously delivered to Lender;

(G) The Leases are on an unfurnished basis;

(H) The original term of each Lease is accurately set forth in the Rent Roll;

(I) No rent has been collected from any Lessee in advance of the date due (other than any security deposits);

(J) Borrower has committed no default or breach under any of the Leases, nor has any event occurred which, with the passage of time or the giving of notice, or both, would constitute a default or breach by Borrower, under any of the Leases;

(K) None of the Lessees are, as of the date hereof, in default in the performance of any Lease, nor has any event occurred which, with the passage of time or the giving of notice, or both, would constitute a default or breach by Lessee except as disclosed in the Rent Roll;

(L) Except as noted in the Rent Roll, no Lease has been assigned and no premises demised under any Lease have been sublet;

(M) Except for Lessees occupying the Real Property under the Leases, no persons have any possessory right in or right to occupy the Real Property; and

(N) All work, labor, services and material furnished to or in connection with the portions of the Real Property let pursuant to the terms of the Leases have been fully paid for, so that no mechanics', materialmen's or other lien may properly be filed against the Real Property relating to such matters.

2.14 BROKERAGE COMMISSIONS. No claim is made by any person for unpaid commissions or brokerage or any other participation in the income from or ownership of the Real

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Property, and no persons have any liens or claims for money which are or may be superior to the lien and charge of the Loan Documents.

2.15 REPRESENTATIONS IN COMMITMENT AND OTHERWISE. The representations made in connection with the Commitment, including but not limited to the type of development, income and expenses of the Real Property, the Leases, and the financial condition and credit of Borrower, are as represented in the Commitment in all respects, except any changes which may have been approved by Lender in writing. In addition to the foregoing, all financial and other information and statements relating to Borrower, any Guarantor and/or any of the Real Property which has been previously supplied to Lender by Borrower, are true, complete and correct in all material respects and have been prepared in accordance with generally acceptable accounting principles, consistently applied.

2.16 STATUS OF REAL PROPERTY. As of the date hereof: (a) not fewer than 262,854 square feet of net rentable area of the Improvements are physically occupied by Lessees; (b) all of the Lessees together are paying gross annual rentals of not less than \$1,012,488; (c) all of the Improvements are in tenantable condition (except, in the case of space not yet occupied, for tenant finish items and fixtures required for a particular Lessee's use); (d) there are no elevators located in the Improvements; (e) there are (and throughout the term of the Loan shall continue to be) not fewer than 203 paved parking spaces at the

Property, including 49 truck spaces and 7 parking spaces suitable for handicap vehicles; (f) there has been no material damage to the Real Property or undue settlement of the Improvements; (g) neither Borrower nor, to the best knowledge of Borrower, any of the Lessees are the subject of any bankruptcy, reorganization or insolvency proceeding or any other similar debtor-creditor proceeding; and (h) the Real Property is free from all due and unpaid water charges, sewer rents, taxes and assessments.

2.17 OPERATION OF THE REAL PROPERTY.

(A) The Real Property is in full compliance with all governmental permits and requirements necessary under applicable law to the lawful ownership and operation of the Real Property;, including but not limited to all applicable zoning, building, safety and environmental laws, ordinances and regulations. All inspections, licenses, permits and certificates required by law, regulation or insurance standards with respect to the use and occupancy of the Real Property have been issued and are in full force and effect. All documents evidencing the right lawfully to occupy the Real Property were duly issued in the usual course, and Borrower has not received notice of any violation of any covenants (public or private), ordinances, statutes, rules, orders or other regulations, nor any notice that the Certificate of Occupancy or equivalent certification (a copy of which was previously delivered to Lender) has been called into question or revoked, nor has Borrower received any notice that the Real Property or the uses to which it has been put are being challenged by any private individual or any court, administrative body, municipal corporation or official having jurisdiction. Borrower has not received any notices, suits, orders, decrees or judgments relating to violations or alleged violations of zoning, building, use and occupancy, fire, health, sanitation, air pollution, ecological, environmental, or other laws against or with respect to the Real Property or any part

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thereof. Borrower is not aware of any irregularity in the issuance of any governmental permits or approvals which were necessary to construct or operate lawfully the Real Property.

(B) There are no actions, suits or proceedings that have been instituted or, to the best knowledge of Borrower, threatened against Borrower or affecting or involving any portion of the Real Property, at law or in equity, by or for any Federal, State or Municipal governmental department, commission, board, bureau, agency or instrumentality or any arbitration group or body, and there are no claims, rights of offset, or litigation, actual, or to the best knowledge of Borrower, threatened, with respect to the Real Property or any portion thereof or Borrower, or any principal therein.

(C) Borrower has no knowledge of any material defects in the Improvements or any of them.

(D) The Real Property: (i) is in compliance with applicable subdivision and land use ordinances, if any; (ii) constitutes a separate tax lot or lots for real estate tax purposes, separate from all other taxed properties (Borrower hereby covenanting and agreeing that it shall not undertake or consent to the taking of any action to change such status); and (iii) is being used for purposes consistent with all applicable zoning laws and regulations and all restrictive covenants affecting the Property.

(E) All of the Improvements have been constructed (and, as applicable, renovated) in accordance with the requirements of all regulatory

authorities having jurisdiction. All Improvements have been constructed or renovated entirely on the Real Property within the applicable building restriction lines; do not and shall not violate use or other restrictions contained in prior conveyances, zoning ordinances or restrictions; and will not encroach upon any easement or right of way or upon the land of others.

(F) All utilities and services necessary to the full use and enjoyment of the Real Property and Improvements (including, without limitation, gas, electricity and telephone) have been fully installed and are connected to the Property. All roads necessary for the full utilization of the Real Property and Improvements for their intended purposes have been completed. There is unrestricted access for the passage of motor vehicles to and from the Real Property to and from Champagne Avenue.

(G) Borrower has not received any notices from any insurance company of any defects or inadequacies in the Real Property or any portion thereof, which would materially and adversely affect the insurability of the Real Property or any portion thereof or the premiums for the insurance thereof, and no notice has been given to Borrower by any insurance company that has issued a policy with respect to any portion of the Real Property or by any board of fire underwriters (or other body exercising similar functions) requesting the performance of any work, which has not been fully complied with.

(H) Except as disclosed in writing by Borrower to Lender prior to the date of this Agreement, no part of the Property is located in an area designated as having special flood hazards on any maps entitled: "Flood Insurance Rate Map," "Flood Hazard Floodway Boundary Map," "Flood Hazard Boundary Map," or "Flood Boundary and Floodway Map" published by the Federal Emergency Management Agency or a "Flood

Hazard Boundary Map" published by the United States Department of Housing and Urban Development.

(I) There are no parties in possession of any portion of the Real Property except Lessees under Leases. All Leases are in full force and effect. Borrower and the Real Property are in compliance with all Leases.

(J) No options or other contracts are outstanding which give or grant to any party a right to purchase from Borrower the Real Property, any interest in the Real Property, any interest in Borrower, or any portion of any of the foregoing.

(K) On the date hereof, the Real Property is zoned M-2 Vintage Industrial Overlay District, pursuant to the zoning ordinances of the City of Ontario, San Bernardino County, California. This zoning classification permits operation and use of the Real Property for a warehouse, distribution facility, offices and showrooms.

2.18 BORROWER'S REAL ESTATE EXPERIENCE. Borrower is a commercially sophisticated entity with experience in dealing in the financial marketplace and specifically in the real estate financial marketplace.

2.19 COMPLETE INFORMATION. No representation or warranty of Borrower or any Guarantor contained in any of the Loan Documents or Guarantor Documents, no statement of Borrower or any Guarantor contained in any certificate, schedule, list, financial statement or other instrument furnished to Lender by or on behalf of Borrower or any Guarantor, and, to the best knowledge of Borrower, no statement of any person or entity other than Borrower or any Guarantor contained in any certificate,

schedule, list, financial statement or other instrument furnished to Lender by or on behalf of Borrower or any Guarantor, contains any untrue statement of a material fact, or omits to state a material fact necessary to make the statements contained therein not misleading in any material respect.

2.20 TITLE POLICY. There is no agreement or arrangement between Stewart Title and Guaranty Company ("Title Company") and Borrower (or any person affiliated with Borrower) relative to Title Company's not setting forth in the title policy issued to Lender concurrently with the Closing of the Loan an exception for any matter, lien or encumbrance on or affecting the Real Property and/or Improvements, unless such agreement or arrangement has been disclosed to and consented to by Lender in writing prior to the date of this Agreement. No such agreement or arrangement will hereafter be entered into without the prior written consent of Lender.

3. MISCELLANEOUS

3.1 DEFAULT AND REMEDIES. Any breach by Borrower of any covenant or agreement contained herein, or any misrepresentation by Borrower of any representation, warranty, certification or confirmation contained herein, shall, subject to any applicable notice and cure periods set forth in the other Loan Documents, constitute an "Event of Default" hereunder, and shall entitle Lender to exercise any and all remedies available to Lender pursuant to this Agreement and any other Loan Document, or available to Lender at law or in equity. In furtherance of the foregoing, any Event of Default hereunder shall be deemed to constitute an Event of Default under any and all of the other Loan Documents.

The remedies herein provided or otherwise available to Lender shall be cumulative and may be exercised concurrently and may be pursued singularly, successively or together, at the sole discretion of Lender, and may be exercised as often as occasion therefor shall arise.

3.2 NO WAIVER; CONSENTS. Lender may waive any breach by Borrower of any of the provisions contained herein or in the Loan Documents, and/or any default by Borrower in the observance or performance of any covenant or condition required to be observed or performed by it contained herein or therein; provided always that such waiver or waivers shall be in writing, shall not be construed as a continuing waiver, and shall not extend to or be taken in any manner whatsoever to affect any subsequent breach, act of omission or default or affect Lender's rights resulting therefrom. Lender's consent to any act or omission of Borrower shall not be construed to be a consent to any other or subsequent act or omission or to waive the requirement for Lender's consent to be obtained in any future or other instance. No act of omission or commission of Lender, including specifically any failure to exercise any right, remedy or recourse, shall be deemed to be a waiver or release of the same, and any waiver or release with reference to any one event shall not be construed as continuing or as a bar to, or as a waiver or release of, any subsequent right, remedy or recourse as to a subsequent event.

3.3 SUCCESSORS AND ASSIGNS. This Agreement and the other Loan Documents shall be binding upon Borrower and its respective successors and assigns, and shall inure to the benefit of Lender and its successors and assigns. Borrower shall not assign any right which it may have pursuant to the terms of this Agreement and the other Loan Documents without obtaining the prior written consent of Lender, which consent may be given or withheld in Lender's sole and absolute discretion.

Lender may endorse, convey, transfer and assign its rights and interests under this Agreement and the other Loan Documents to any other party and/or affiliate of Lender and Borrower agrees to make such modifications in the Loan Documents as will facilitate such assignment provided that such modifications do not add to the obligations of Borrower.

3.4 NATURE OF RELATIONSHIP.

(A) The relationship between Lender and Borrower in connection with the Loan shall be solely that of creditor and debtor. Nothing contained in this Agreement or in any other Loan Documents shall be deemed or construed to create a partnership, tenancy-in-common, joint tenancy, joint venture or co-ownership between Lender and Borrower. Lender shall not be in any way responsible or liable for the debts, losses, obligations or duties of Borrower with respect to the Real Property or otherwise by virtue of the Loan. All obligations to pay real property or other taxes, assessments, insurance premiums, and all other fees and charges arising from the ownership, operation, use or occupancy of the Real Property and to perform obligations under all Leases and other agreements and contracts relating to the Real Property shall be the sole responsibility of Borrower.

(B) Lender is not a partner or joint venturer in any manner whatsoever with Borrower or any other party in the operation of the Real Property. Lender shall not in any manner whatsoever be liable or responsible by reason of the provisions hereof, or otherwise, for

the payment of any claims arising from the operation of the Real Property. Lender shall not be responsible for the solvency of any company issuing any policy of insurance pursuant to any of the Loan Documents whether or not approved by it, or for the collection of any amounts due under any such policy, and shall be responsible and accountable only for such money as may be actually received by it, and then only in accordance with the terms of the Loan Documents. Nothing contained in any of the Loan Documents shall be construed as making Lender liable in any way for any loss, damage, or injury resulting from the non-insurance of the Real Property or any property located on the Real Property.

3.5 INDEMNIFICATION BY BORROWER.

(A) Borrower hereby agrees to and shall indemnify, defend, protect and hold Lender harmless from and against any and all third party claims, demands, damages, losses, liens, liabilities, penalties, fines, lawsuits and other proceedings, and all costs and expenses (including, without limitation, reasonable attorney's fees), arising directly or indirectly from, or out of, or in any way connected with (i) any inaccuracy in the representations, warranties, certifications or confirmations contained in this Agreement or in any of the other Loan Documents; and/or (ii) Borrower's ownership or operation of the Property. Borrower agrees that its obligations hereunder shall not be limited or in any way affected by any limitations on liability for repayment of the Indebtedness contained elsewhere in the Loan Documents, including, without limitation, any limitations on liability contained in Section 3.6 below, Section 9 of the Note or Section 3.7 of the Security Instrument (defined below).

(B) Borrower agrees to indemnify, protect, defend, reimburse and hold Lender harmless for, from and against any and all claims and liabilities, losses, injuries, costs, damages and expenses (including, without limitation, reasonable attorneys' fees and disbursements) which

Lender may incur in administering or enforcing the Loan, Loan Documents or Guarantor Documents as a result of any act of Lender thereunder or taken pursuant hereto and of and from any and all claims or demands whatsoever which may be instituted against Lender by reason of any alleged obligations or undertakings on its part to perform or discharge any of the terms, covenants or agreements contained in any Lease or any other agreement made by Borrower relating to the Real Property. Should Lender incur any such liability under any Lease, or under or by virtue of this Agreement or any other Loan Document, or any other agreement made by Borrower relating to the Real Property, or in defense of any claims or demands related thereto, the amount thereof, including, without limitation, costs, expenses and reasonable attorneys' fees, shall be secured by the Security Instrument and all other instruments of security made in connection with the Loan, and Borrower agrees to reimburse Lender therefor immediately upon demand together with interest thereon at the Augmented Rate from the later of the date the demand therefor is received by Borrower or the date such amounts were incurred by Lender, to the date reimbursed. Upon the failure of Borrower to so indemnify, protect, defend, hold harmless or reimburse and the expiration of any applicable cure periods, Lender may declare all sums due hereunder and under the Note and the other Loan Documents immediately due and payable.

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3.6 NON-RECOURSE, WITH EXCEPTIONS. Except as provided below, the liability of Borrower for payment of the indebtedness evidenced by the Note shall be limited to the Real Property and such other collateral ("Other Collateral") as may be pledged to secure the indebtedness evidenced hereby, pursuant to the Loan Documents, or otherwise. The Real Property and the Other Collateral are sometimes collectively referred to herein as the "Security." Lender agrees not to seek or obtain any deficiency or personal judgment against Borrower except such judgment or decree as may be necessary to obtain Borrower's interest in the Security. The foregoing limitation of Borrower's liability shall not apply to, and regardless of the sale or other disposition of the Security, Borrower shall be and remain personally liable for any loss, damage or expense, including reasonable attorney's fees, suffered by Lender as a result of any of the following (collectively, the "Recourse Obligations"):

(A) Any failure of Borrower to maintain in full force and erect all insurance required to be maintained under the Loan Documents or to repair and/or reconstruct any of the Security in accordance with the terms of the Loan Documents.

(B) Any failure of Borrower to pay when due all taxes and assessments levied or assessed against any of the Security (including, without limitation, any failure of Borrower to deposit sufficient tax/assessment impounds with Lender as required under the Loan Documents).

(C) The execution, modification and/or termination of any Leases affecting the Security without the consent of Lender.

(D) Any transfers of any of the Security or ownership interests in Borrower or in any entity that constitutes, either directly or indirectly, Borrower, without the consent of Lender, where such consent is required under the Loan Documents.

(E) Any actions and claims instituted against or, affecting any of the Security, including mechanic's liens.

(F) Any default under any separate Certificate(s) and Indemnity(ies) Regarding Hazardous Substances given by Borrower and/or Guarantor(s) in

favor of Lender.

(G) Any waste or intentional or willful destruction of any of the Security by Borrower or its agents and contractors.

(H) Any fraud or intentional or willful misrepresentation, by any party (other than Lender) executing the Note or any other Loan Document (even if other than Borrower) or any successor or permitted assign thereof.

(I) Any misapplication of any proceeds (A) paid under any insurance policies or (B) realized from awards from condemnation or the exercise of the power of eminent domain (or a taking in lieu thereof), in any case arising from any of the Security (which misapplication shall be deemed to have occurred in the event that any such proceeds are not used in the manner provided in the Loan Documents relative to casualty and/or condemnation, as applicable).

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(J) Any misapplication of the gross proceeds (including without limitation rents and all other revenues) from any of the Security (which misapplication shall be deemed to have occurred in the event any of such gross proceeds are not first applied to costs of operating and maintaining the Security, including without limitation, payment of the Note).

(K) Any application of security deposits other than in accordance with applicable law and with the terms of the applicable leases under which the security deposits are held; or Borrower's failure to provide such security deposits to Lender upon Lender's acquisition of the Security, after default.

(L) The removal of any personal property, fixtures and equipment from the Security by or on behalf of the Borrower and Borrower's failure to replace same with items of the same utility and the same or greater value.

(M) Any fees and commissions paid by Borrower to any member, partner, shareholders, agent, employee, affiliate or related party of Borrower.

Notwithstanding any other provision of this Section 3.6 to the contrary, the Loan shall be fully recourse in the event that Borrower commences a voluntary bankruptcy or insolvency proceeding or a bankruptcy or insolvency proceeding is commenced against Borrower and is not dismissed within ninety (90) days of filing. As used herein, the phrase "Recourse Obligations" shall include Borrower's full recourse liability pursuant to the preceding sentence. Nothing contained herein, however, shall constitute a waiver of any right which Lender may have under any provisions of the United States Bankruptcy Code to file a claim for the full amount of the indebtedness secured by the Security Instrument or to require that the Real Property shall continue to secure all of the indebtedness owing to Lender.

In connection with the foregoing, Borrower shall cause each Guarantor(s) to execute a guaranty relative to the Recourse Obligations acceptable to Lender in all respects.

3.7 ATTORNEYS' FEES.

(A) In the event Borrower fails to perform any of its obligations under the Loan Documents or if any dispute arises between the parties hereto concerning the meaning or interpretation of any provision of this Agreement or other Loan Document or a party's rights hereunder, then the Borrower shall pay any and all costs and expenses incurred by

Lender on account of such default and/or in enforcing or establishing its rights hereunder, including, without limitation, court costs and reasonable attorneys' fees and disbursements, whether in trial courts, appellate courts, bankruptcy courts, arbitration or mediation. Arty such attorneys' fees and other expenses incurred by Lender in enforcing a judgment in its favor under this Agreement shall be recoverable separately from and in addition to arty other amount included in such judgment, and such attorneys' fees obligation is intended to be severable from the other provisions of this Agreement and to survive and not be merged into any such judgment.

(B) Without limiting the generality of Section 3.7(a) above, Borrower hereby agrees to pay all costs of collection under the Loan Documents and the Guarantor Documents

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executed in connection herewith, including attorneys' fees, whether or not litigation is actually commenced and whether in trial courts, appellate courts, bankruptcy courts, arbitration or mediation. In the event Lender is made a party to any litigation because of the existence or execution of the Loan Documents or Guarantor Documents, Borrower shall reimburse Lender for its costs and attorneys' fees incurred with respect to such litigation.

- 3.8 TIME OF ESSENCE. Time is of the essence of all obligations under the Loan Documents.
- 3.9 MODIFICATION, AND AMENDMENTS. No modification, consent, amendment or waiver of any provision:, of the Loan Documents or the other documents executed in connection therewith, nor consent of any departure by Borrower therefrom, shall be effective unless the same be in writing.
- 3.10 INDEMNIFICATION FOR BROKERS' FEES. Borrower represents and warrants to Lender that it has had no dealings, negotiations, or consultations with any broker, representative, employee, agent or other intermediary other than L.J. Melody and Company ("Broker") in connection with the obtaining or the funding of the Loan. Borrower agrees to indemnify, defend and hold Lender free and harmless from the claims of Broker and any other brokers, representatives, employees, agents or other intermediaries claiming to have represented Borrower or otherwise to be entitled to compensation in connection with this Agreement or the funding of the Loan. The provisions of this Section 3.10 shall survive the funding and subsequent repayment of the Loan.
- 3.11 SURVIVAL OF WARRANTIES. All covenants, agreements, representations, certifications, confirmations, warranties and indemnifications made herein shall survive the execution and delivery of this Agreement and the other Loan Documents and the making of the Loan.
- 3.12 SEVERABILITY. If any provision of this Agreement or any of the other Loan Documents is invalid, illegal or unenforceable, such provision shall be severable from the rest of this Agreement or the other Loan Documents and the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.
- 3.13 GOVERNING LAW. This Agreement and the other Loan Documents shall be governed by and construed in all respects according to the laws of the state wherein the Real Property is located, without regard to the choice of laws provisions thereof.
- 3.14 RELATIONSHIP OF LOAN DOCUMENTS AND THIS AGREEMENT TO COMMITMENT. The terms and provisions of this Agreement and the other Loan Documents

supersede any inconsistent terms and conditions of the Commitment which shall otherwise survive the execution and delivery of the Loan Documents. Any failure by Borrower to perform any remaining obligations under the Commitment, including but not limited to any obligation to pay fees to Lender or to pay any costs or expenses relating to the Loan, shall constitute an Event of Default hereunder and under the other Loan Documents.

3.15 REASONABLENESS OF ACTIONS. In each and every instance in which the approval, consent, authorization, or satisfaction of Lender is required under the provisions of this Agreement or any of the other Loan Documents, such approval, consent, authorization, or satisfaction

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if withheld or delayed shall be presumed reasonable, and in the event it is ultimately determined that Lender's approval, consent, authorization, or satisfaction was wrongly withheld or delayed, Borrower's remedies shall be limited to specific performance if specific performance would make Borrower whole, and if not, Borrower's damages shall be limited to actual damages and/or specific performance the end result of which is to make Borrower whole. By the execution of this Agreement, Borrower waives any right to claim consequential, exemplary or punitive damages against Lender.

3.16 NOTICES. All notices given by any party hereunder and under the other Loan Documents shall be given in the manner provided in the deed to secure debt, mortgage or deed of trust on even date herewith (the "Security Instrument") given by Borrower to Lender to secure the Loan.

3.17 WAIVER OF SUBROGATION. Borrower, until the Loan is paid in full, hereby waives any and all rights of subrogation to Lender's rights or claims to the extent affecting the Security for the Loan.

3.18 NO THIRD PARTIES BENEFITED. By their execution of this Agreement, the parties hereto do not intend to create any rights of any kind or nature whatsoever in any third parties and no third parties shall have any rights hereunder.

3.19 HEADINGS. Headings of the sections of this Agreement are inserted for convenience only and shall not be, deemed to constitute a part hereof.

3.20 COUNTERPARTS. This Agreement may be executed in one or more counterparts (and by different parties on separate counterparts), each of which shall be deemed an original and all of which, when taken together, shall constitute one instrument.

SIGNATURE PAGE TO FOLLOW

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IN WITNESS WHEREOF, the parties hereto have hereunto executed this Agreement as of the day and year first written above.

BORROWER:

YALE INVESTMENTS, LLC,
a Delaware limited liability company

By: SKECHERS U.S.A., INC.,

a Delaware corporation, as the Sole Member and Manager
of Yale Investments, LLC

By: /s/ DAVID WEINBERG

By: /s/ PHILIP C. PACCIONE

Name: David Weinberg

Name: Philip C. Paccione

Title: CFO

Title: General Counsel & Secretary

LENDER:

MONY LIFE INSURANCE COMPANY,
a New York corporation

By: /s/ THOMAS MCCA HILL

Name: Thomas McCahill

Title: Sr. Vice President

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EXHIBIT "A"

LEGAL DESCRIPTION

The land located in San Bernardino County, State of California, more particularly described as follows:

PARCELS 18 AND 23 OF PARCEL MAP NO. 9252, AS SHOWN BY MAP ON FILE IN BOOK 107 PAGE(S) 75 THROUGH 82, INCLUSIVE, OF PARCEL MAPS, RECORDS OF SAN BERNARDINO COUNTY, CALIFORNIA;

ALSO EXCEPTING THEREFROM ALL MINERAL AND ALL MINERAL RIGHTS, OIL AND GAS AND RIGHTS THERETO TOGETHER WITH SOLE, EXCLUSIVE AND PERPETUAL RIGHT TO EXPLORE FOR, REMOVE AND DISPOSE OF, SAID MAINERALS BY ANY MEANS OR METHODS SUITABLE, BUT WITHOUT ENTERING UPON OR USING THE SURFACE OF SAID LANDS AND IN SUCH A MANNER AS NOT TO DAMAGE SURFACE OF SAID LANDS AS NOT TO INTERFERE WITH THE USE THEREOF, AS CONVEYED TO UNION PACIFIC LAND RESOURCES CORPORATION BY DEED RECORDED NOVEMBER 23, 1982 AS INSTRUMENT NO. 82-234011 OF OFFICIAL RECORDS.

NOTE: SAID LAND IS DESCRIBED AND DELINEATED AS LOT A IN THAT CERTAIN CERTIFICATE APPROVING A LOT LINE ADJUSTMENT NO. LL-99-15, RECORDED JANUARY 7, 2000 AS INSTRUMENT NO. 00-006152 OF OFFICIAL RECORDS.

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EXHIBIT "B"

RENT ROLL

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RENT ROLL

Suite No.	Tenant	Lease Status	Area (sq. ft.)	Comm. Date	Expiration Date	Minimum Current Annual Rental (\$psf)	Minimum Annual Rate	Exp. Stop (\$psf)
1670 S. Champagne Avenue	Skechers USA, Inc.	Assigned	263,670	07/15/00	07/14/15	\$3.90/sf/yr	\$1,028,316	None

Fixed Reimbursement	CPI/Fixed Increases	Rent	Total Occupied Sq. Ft.	Tenant Share	Security Deposit
NNN, tenant responsible for all operating	Month 61: CPI Month 96: CPI Month 132: CPI Month 168: CPI	\$92,285	100%	100%	\$85,693

I hereby certify this to be true and accurate:

Yale Investments, LLC

By: _____

Its: _____

Date: _____

PROMISSORY NOTE

MONY Loan No. 101183

\$7,850,000

Ontario, California
December 21, 2000 ("Effective Date")

FOR VALUE RECEIVED, YALE INVESTMENTS, LLC, a Delaware limited liability company, as maker, having its principal place of business at 228 Manhattan Beach Boulevard, Manhattan Beach, California 90266 ("Borrower"), hereby unconditionally promises to pay to the order of MONY LIFE INSURANCE COMPANY, a New York corporation, as payee, having an address at 1740 Broadway, New York, New York 10019 ("Lender"), by wire transfer to Lender's account at a banking institution and in accordance with instructions issued by Lender or at such other place and in such manner as the holder hereof may from time to time designate in writing, the principal sum of SEVEN MILLION EIGHT HUNDRED FIFTY THOUSAND DOLLARS (\$7,850,000.00), in lawful money of the United States of America with interest thereon to be computed from the date of this Note at the Applicable Interest Rate (defined below) in accordance with the terms of this Note. Initially capitalized terms used herein and not otherwise defined herein shall have the meanings assigned thereto in the Security Instrument (as defined below) entered into by and between Borrower and Lender on or about the date hereof.

ARTICLE 1: PAYMENT TERMS

Borrower agrees to pay sums under this Note in installments as follows:

(a) a payment of interest only on January 1, 2001, representing payment of interest from the Effective Date through and including the last day of the month in which the Effective Date falls;

(b) a constant payment of Fifty-Seven Thousand Six Hundred One and no/100ths Dollars (\$57,601.00) on the first day of February, 2001, and on the first day of each calendar month thereafter up to and including the first day of December, 2010 (each, a "Payment Date"); and

(c) (the balance of the principal sum and all interest thereon on the first day of January, 2011 (the "Maturity Date").

All payments on this Note shall, at the option of Lender, be applied first to the payment of late charges and/or interest due at the Default Rate (as defined below), if any, then to the repayment of any sums advanced by Lender for the payment of any insurance premiums, taxes, assessments or other charges against the property securing this Note, then to the payment of any other sums due from Borrower to Lender pursuant to the Security Instrument or Other Security Documents, then to the payment of accrued and unpaid interest, and, after all such premiums, charges, sums and interest have been paid, any remainder shall be applied to reduction of the principal sum.

ARTICLE 2: INTEREST

The interest rate on this Note is Seven and Eighty-Nine/100ths percent (7.89%) per annum (the "Applicable Interest Rate"). Interest on the principal sum of this Note shall be calculated by multiplying the actual number of days elapsed in the applicable period by a daily rate based upon a three hundred sixty (360) day year.

ARTICLE 3: DEFAULT AND ACCELERATION

If any payment required in this Note is not paid (a) prior to the fifth (5th) day after a Payment Date, (b) on the Maturity Date, or (c) on the happening of any other default (after the expiration of any applicable notice and grace periods), herein or under the terms of the Security Instrument or any of the Other Security Documents (as defined in the Security Instrument) (collectively, an "Event of Default"), at the option of Lender the following shall, without notice, become immediately due and payable: (i) the whole of the principal sum and accrued interest on this Note; (ii) late charges and other sums, as provided in this Note, the Security Instrument or the Other Security Documents, commencing on the eleventh (11th) day after the Payment Date if such payment has not yet been received by the eleventh (11th) day; (iii) default interest, as provided in this Note, the Security Instrument or the Other Security Documents; (iv) all other monies agreed or provided to be paid by Borrower in this Note, the Security Instrument or the Other Security Documents; (v) all sums advanced pursuant to the Security Instrument to protect and preserve the Property (defined below) and the lien and the security interest created thereby and (vi) all sums advanced and costs and expenses incurred by Lender in connection with the Debt (defined below) or any part thereof, any renewal, extension, or change of or substitution for the Debt or any part thereof, or the acquisition or perfection of the security therefor, whether made or incurred at the request of Borrower or Lender (all the sums referred to in (i) through (vi) above shall collectively be referred to as the "Debt").

ARTICLE 4: DEFAULT INTEREST

Borrower agrees that upon the occurrence of an Event of Default, Lender shall be entitled to receive and Borrower shall pay interest on the entire unpaid principal sum at a per annum rate equal to the lesser of (a) fifteen percent (15%) per annum, and (b) the maximum interest rate which Borrower may by law pay (the "Default Rate"). The Default Rate shall be computed from the occurrence of the Event of Default until the earlier of the date upon which the Event of Default is cured or the date upon which the Debt is paid in full. Interest calculated at the Default Rate shall be added to the Debt, and shall be deemed secured by the Security Instrument. This clause, however, shall not be construed as an agreement or privilege to extend the date of the payment of the Debt, nor as a waiver of any other right or remedy accruing to Lender by reason of the occurrence of any Event of Default.

ARTICLE 5: LATE CHARGE

As to each default in the performance of the covenants and obligations of Borrower under the Security Instrument or under any of the Other Security Documents not involving the payment of money, a late charge of \$1,000 shall be due and payable for the month in which the default first occurred, on the day the applicable grace, notice or cure period, if any, expires or if none, then on the day of the default. An additional \$1,000 late charge shall be due, without notice, on the first day of each calendar month thereafter during which the default continues, until the default is fully cured.

ARTICLE 6: REPAYMENT

(a) The principal balance of this Note may not be prepaid in whole or in part except as expressly permitted pursuant hereto.

(b) No prepayment of this Note shall be permitted for a period of one (1) year after the date hereof. Thereafter, Borrower may prepay the Loan Balance in full (but not in part) on any regularly scheduled payment date hereunder after giving Lender sixty (60) days prior written notice ("Prepayment Notice") and upon payment of a prepayment premium (the "Premium") calculated as provided

below. Any Prepayment Notice given hereunder may not be withdrawn within fifteen (15) days prior to the scheduled date of prepayment ("Prepayment Date") without Lender's consent in its sole discretion, and this Note shall be due in full on the Prepayment Date. No more than one (1) Prepayment Notice may be given within any sixty (60) day period.

(i) The Premium shall equal the greater of (i) the Aggregate Present Values of the Monthly Income Losses or (ii) one percent (1.0%) of the then outstanding Principal Amount; provided however that in the event Borrower prepays the Loan in full and not in part during the last sixty (60) days immediately prior to the Maturity Date, such prepayment may be made at par without the requirement to pay the Premium. The Premium shall be calculated on the date ("Calculation Date") ten (10) business days prior to the Prepayment Date.

(ii) The Aggregate Present Values of the Monthly Income Losses shall be calculated as follows:

- (A) Subtract the Discount Rate (as defined below) from the Interest Rate to determine the "Rate Difference" (provided that the Rate Difference shall in no event be less than zero). Then divide the Rate Difference by twelve (12) to determine the "Monthly Rate Difference";
- (B) Determine, as of the first day of each month during the Calculation Period (as defined below), what the Principal Amount would have been had the Loan been paid pursuant to the regular installment terms of this Note based on the amortization schedule then in effect on the Loan (for each such month, the "Amortizing Monthly Balance");
- (C) Multiply the Monthly Rate Difference by the Amortizing Monthly Balance of each month during the Calculation Period to determine the "Gross Monthly Income Loss" applicable to each month;
- (D) Determine the present value of the Gross Monthly Income Loss for each month by discounting the Gross Monthly Income Loss for each month at the Monthly Discount Rate (as defined below);
- (E) Add the present value of the Gross Monthly Income Loss for each month during the Calculation Period to determine the Aggregate Present Values of the Monthly Income Losses.

(iii) As used in these prepayment provisions, the following definitions shall apply:

- (A) The "Calculation Period" is the period from the Prepayment Date through the Maturity Date; and
- (B) The "Discount Rate" shall be equal to the "ask yield" rate on the U.S. Treasury note or bond (not including "inflation indexed" issues) maturing closest in time to the Maturity Date as such "ask yield" is

Wall Street Journal, or similar publication designated by Lender, on the Calculation Date. If there is more than one such U.S. Treasury note or bond so reported, Lender shall determine in its sole discretion, which one shall be utilized as the "Discount Rate." The "Monthly Discount Rate" shall be equal to the Discount Rate divided by twelve (12);

- (iv) Borrower acknowledges that the Premium represents the reasonable estimate of Lender and Borrower of a fair average compensation for the loss that may be sustained by Lender due to the payment of any of the indebtedness evidenced hereby prior to the originally scheduled Maturity Date. The Premium shall be paid without prejudice to the right of Lender to collect any other amounts provided to be paid hereunder or under the other Loan Documents. Borrower hereby expressly: (i) waives any statutory and common law rights it may have to prepay this Note, in whole or in part, without penalty, upon acceleration of the Maturity Date; and, (ii) agrees that if, for any reason, a prepayment of any or all of this Note is made, whether voluntary or upon or following any acceleration of the Maturity Date by Lender on account of any default by Borrower under the terms of this Note, or any of the other Loan Documents, including without limitation, any transfer or disposition of any of the Security for this Note, as prohibited or restricted by the terms of any of the Loan Documents, and whether or not said payment is made prior to or at any foreclosure sale held under the terms of the Loan Documents, then Borrower shall be obligated to pay the applicable Premium concurrently therewith.

INITIALS: /s/ ILLEGIBLE

ARTICLE 7: SECURITY

This Note is secured by that certain Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing dated the date hereof given by Borrower to (or for the benefit of) Lender covering the fee simple estate of Borrower in certain premises located in San Bernardino County, State of California, and other property, as more particularly described therein (collectively, the "Property") and intended to be duly recorded in said County (the "Security Instrument"), and by the Other Security Documents.

ARTICLE 8: LOAN CHARGES

This Note, the Security Instrument and the Other Security Documents are subject to the express condition that at no time shall Borrower be obligated or required to pay interest on the principal balance due hereunder at a rate which

could subject Lender to either civil or criminal liability as a result of being in excess of the maximum interest rate which Borrower is permitted by applicable law to contract or agree to pay. If by the terms of this Note, the Security Instrument and the Other Security Documents, Borrower is at any time required or obligated to pay interest on the principal balance due hereunder at a rate in excess of such maximum rate, the Applicable Interest Rate or the Default Rate, as the case may be, shall be deemed to be immediately reduced to such maximum rate and all previous payments in excess of the maximum rate shall be deemed to have been payments in reduction of principal and not on

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account of the interest due hereunder. All sums paid or agreed to be paid to Lender for the use, forbearance, or detention of the Debt, shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full stated term of the Note until payment in full so that the rate or amount of interest on account of the Debt does not exceed the maximum lawful rate of interest from time to time in effect and applicable to the Debt for so long as the Debt is outstanding.

ARTICLE 9: WAIVERS

Borrower and all others who may become liable for the payment of all or any part of the Debt do hereby severally waive presentment and demand for payment, notice of dishonor, protest and notice of protest and non-payment and all other notices of any kind (including without limitation notices under Civil Code Section 2954.5, relating to default and late charges), except for notices expressly provided for in this Note, the Security Instrument or the Other Security Documents. No release of any security for the Debt or extension of time for payment of this Note or any installment hereof, and no alteration, amendment or waiver of any provision of this Note, the Security Instrument or the Other Security Documents made by agreement between Lender or any other person or party shall release, modify, amend, waive, extend, change, discharge, terminate or affect the liability of Borrower, and any other person or entity who may become liable for the payment of all or any part of the Debt, under this Note, the Security Instrument or the Other Security Documents. No notice to or demand on Borrower shall be deemed to be a waiver of the obligation of Borrower or of the right of Lender to take further action without further notice or demand as provided for in this Note, the Security Instrument or the Other Security Documents. If Borrower is a partnership, corporation or limited liability company, the agreements contained herein shall remain in full force and effect, notwithstanding any changes in the individuals or entities comprising the Borrower, and the term "Borrower," as used herein, shall include any alternate or successor entity, but any predecessor entity, and its partners or members, as the case may be, shall not thereby be released from any liability. (Nothing in the foregoing sentence shall be construed as a consent to, or a waiver of, any prohibition or restriction on transfers of interests in Borrower which may be set forth in the Security Instrument or any Other Security Document.) ARTICLE

10: WAIVER OF TRIAL BY JURY

BORROWER HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, THE RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, WHETHER IN CONTRACT, TORT OR OTHERWISE, RELATING DIRECTLY OR INDIRECTLY TO THE LOAN EVIDENCED BY THIS NOTE, THE APPLICATION FOR THE LOAN EVIDENCED BY THIS NOTE, THIS NOTE, THE SECURITY INSTRUMENT OR THE OTHER SECURITY DOCUMENTS OR ANY ACTS OR OMISSIONS OF LENDER, ITS OFFICERS, EMPLOYEES, DIRECTORS OR AGENTS IN CONNECTION THEREWITH. BORROWER DOES HEREBY CONSTITUTE AND APPOINT MONY ITS TRUE AND LAWFUL ATTORNEY-IN-FACT, WHICH APPOINTMENT IS COUPLED WITH AN INTEREST, AND BORROWER DOES HEREBY AUTHORIZE AND EMPOWER LENDER, IN THE NAME, PLACE AND STEAD OF BORROWER, TO FILE THIS NOTE WITH THE CLERK OR JUDGE OF ANY COURT OF COMPETENT JURISDICTION AS A STATUTORY WRITTEN CONSENT TO WAIVER OF TRIAL BY JURY. ARTICLE 12:

ARTICLE 11: EXCULPATION

(a) Notwithstanding anything to the contrary contained in this Note, the Security Instrument or any Other Security Document (but subject to the provisions of subsections (b), (c) and (d) of this Article 11), Lender shall not enforce the liability and obligation of Borrower to perform and observe the obligations contained in this Note or the Security Instrument by any action or proceeding wherein a money judgment or any deficiency judgment or other judgment establishing any personal liability shall be sought against Borrower or any principal, director, officer, employee, beneficiary, shareholder, partner, member, trustee, agent or affiliate of Borrower or any person owning, directly or indirectly, any legal or beneficial interest in Borrower, or any successors or assigns of any of the foregoing (collectively, the "Exculpated Parties"), except that Lender may bring a foreclosure action, action for specific performance or other appropriate action or proceeding to enable Lender to enforce and realize upon this Note, the Security Instrument, the Other Security Documents, and the interest in the Property, the Rents (as defined in the Security Instrument) and any other collateral given to Lender to secure this Note; provided, however, subject to the provisions of subsections (b), (c) and (d) of this Article 11, that any judgment in any such action or proceeding shall be enforceable against Borrower only to the extent of Borrower's interest in the Property, in the Rents and in any other collateral given to Lender to secure this Note. Lender, by accepting this Note and the Security Instrument, agrees that it shall not, except as otherwise provided in this Article 1.1, sue for, seek or demand any deficiency judgment against Borrower or any of the Exculpated Parties, in any such action or proceeding, under or by reason of or under or in connection with this Note, the Security Instrument or the Other Security Documents. The provisions of this Article 11 shall not, however: (i) constitute a waiver, release or impairment of any obligation evidenced or secured by this Note, the Security Instrument or the Other Security Documents delivered to Lender; (ii) impair the right of Lender to name Borrower as a party defendant in any action or suit for judicial foreclosure and sale under the Security Instrument; (iii) affect the validity or enforceability of any indemnity, guaranty, master lease or similar instrument made in connection with this Note, the Security Instrument, or the Other Security Documents; (iv) impair the right of Lender to obtain the appointment of a receiver; (v) impair the enforcement of the Assignment of Leases and Rents executed in connection herewith; (vi) impair the right of Lender to enforce the provisions of Section 12.2 of the Security Instrument or of Section 3.12(e) of the Security Instrument; or (vii) impair the right of Lender to obtain a deficiency judgment or other judgment on the Note against Borrower if necessary to obtain any insurance proceeds or condemnation awards to which Lender would otherwise be entitled under this Security Instrument; provided however, Lender shall only enforce such judgment to the extent of the insurance proceeds and/or condemnation awards.

(b) Notwithstanding the provisions of this Article 11 to the contrary, Borrower shall be personally liable to Lender for the Losses (as defined in the Security Instrument) it incurs due to: (i) any failure of Borrower to maintain in full force and effect all insurance required to be maintained under the Security Instrument or to repair and/or reconstruct any of the Property in accordance with the terms of the Security Instrument or any of the Other Security Documents; (ii) any failure of Borrower to pay when due all taxes and assessments levied or assessed against any of the Property (including, without limitation, any failure of Borrower to deposit sufficient

tax/assessment impounds with Lender as required under the Security Instrument);

(iii) the execution, modification and/or termination of any leases affecting the Property without the consent of Lender, where such consent is required under the Security Instrument or under any of the Other Security Documents; (iv) any transfers of any of the Property or ownership interests in Borrower or in any entity that constitutes, either directly or indirectly, Borrower, without the consent of Lender, where such consent is required under the Security Instrument or under any of the Other Security Documents; (v) any actions and claims instituted against or affecting any of the Property, including mechanic's liens; (vi) any default under the Certificate and Indemnity Regarding Hazardous Substances given by Borrower and Guarantor in favor of Lender; (vii) any waste or intentional or willful destruction of any of the Property by Borrower or its agents or contractors; (viii) any fraud or intentional or willful misrepresentation, by any party (other than Lender) executing the Note, the Security Instrument or any of the Other Security Documents (even if other than Borrower) or any successor or permitted assign thereof; (ix) any misapplication of any proceeds (A) paid under any insurance policies or (B) realized from awards from condemnation or the exercise of the power of eminent domain (or a taking in lieu thereof), in any case arising from a casualty to or taking of any of the Property (which misapplication shall be deemed to have occurred in the event that any such proceeds are not used in the manner provided in the Security Instrument or any of the Other Security Documents relative to casualty and/or condemnation, as applicable; (x) any misapplication of the gross proceeds (including without limitation Rents and all other revenues) from any of the Property (which misapplication shall be deemed to have occurred in the event any of such gross proceeds are not first applied to costs of operating and maintaining the Property, including without limitation, payment of the Note); (xi) any application of security deposits other than in accordance with applicable law and with the terms of the applicable leases under which the security deposits are held; or Borrower's failure to provide such security deposits to Lender upon Lender's acquisition of the Property after default; (xii) the removal of any personal property, fixtures and equipment from the Property by or on behalf of the Borrower and Borrower's failure to replace same with items of the same utility and the same or greater value; (xiii) any fees and commissions paid by Borrower to any member, partner, shareholder, agent, employee, affiliate or related party of Borrower.

(c) Notwithstanding the foregoing, the agreement of Lender not to pursue recourse liability as set forth in subsection (a) above SHALL BECOME NULL AND VOID and shall be of no further force and effect in the event of Borrower's default under Article 8 of the Security Instrument or if the Property or any part thereof shall become an asset in (i) a voluntary bankruptcy or insolvency proceeding; or (ii) an involuntary bankruptcy or insolvency proceeding (other than one filed by Lender) which is not dismissed within ninety (90) days of filing.

(d) Nothing herein shall be deemed to be a waiver of any right which Lender may have under Section 506(a), 506(b), 1111(b) or any other provision of the U.S. Bankruptcy Code to file a claim for the full amount of the indebtedness secured by the Security Instrument or to require that all collateral shall continue to secure all of the indebtedness owing to Lender in accordance with this Note, the Security Instrument and the Other Security Documents.

ARTICLE 12: AUTHORITY

Borrower (and the undersigned representative of Borrower, if any) represents that Borrower has full power, authority and legal right to execute and deliver this Note, the Security

Instrument and the Other Security Documents and that this Note, the Security Instrument and the Other Security Documents constitute valid and binding obligations of Borrower.

ARTICLE 13: GOVERNING LAW

This Note shall be governed, construed, applied and enforced in accordance with the laws of the state in which the Property is located.

ARTICLE 14: NOTICES

All notices required or permitted hereunder shall be given as provided in the Security Instrument.

ARTICLE 15: INCORPORATION BY REFERENCE

All of the terms, covenants and conditions contained in the Security Instrument and the Other Security Documents are hereby made part of this Note to the same extent and with the same force as if they were fully set forth herein.

ARTICLE 16: MISCELLANEOUS

(a) Wherever pursuant to this Note it is provided that Borrower pay any costs and expenses, such costs and expenses shall include, but not be limited to, reasonable legal fees and disbursements of Lender, whether with respect to retained firms, the reimbursement for the expenses of in-house staff, or otherwise. Borrower shall pay to Lender on demand any and all expenses, including legal expenses and reasonable attorneys' fees, incurred or paid by Lender in enforcing this Note, whether or not any legal proceeding is commenced hereunder, together with interest thereon at the Default Rate from the date paid or incurred by Lender until such expenses are paid by Borrower.

(b) This Note shall not be modified, amended, waived, extended, changed, discharged or terminated orally or by any act or failure to act on the part of Borrower or Lender, but only by an agreement in writing signed by the party against whom enforcement of any modification, amendment, waiver, extension, change, discharge or termination is sought.

(c) If Borrower consists of more than one person or party, the obligations and liabilities of each person or party shall be joint and several.

(d) Whenever used, the singular number shall include the plural, the plural number shall include the singular, and the words "Lender" and "Borrower" shall include their respective successors, assigns, heirs, executors and administrators.

(e) If Lender accepts a guaranty of only a portion of the Debt, Borrower hereby waives its right under California Civil Code Section 2822(a) or any similar statute or common law provisions, to designate the portion of the Debt which shall be satisfied by any guarantor's partial payment.

SIGNATURE PAGE TO FOLLOW

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IN WITNESS WHEREOF, Borrower has duly executed this Note as of the day and year first above written.

YALE INVESTMENTS, LLC,
a Delaware limited liability company

BY: SKECHERS U.S.A., INC.,
a Delaware corporation, as the Sole Member and
Manager of Yale Investments, LLC

By: /s/ PHILIP C. PACCIONE

Name: Philip C. Paccione

Title: General Counsel & Secretary

Acknowledgment appears on the following page.

By: /s/ DAVID WEINBERG

Name: David Weinberg

Title: CFO

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STATE OF California)
) ss.
COUNTY OF Los Angeles)

On this 19th day of December, 2000, before me personally appeared Philip C. Paccione and David Weinberg, personally known to me or proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity(ies), and that by his signature(s) on the instrument the person(s) or the entity(ies) upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

/s/ KAREN SMITH

Signature of Notary

[seal]

My Commission Expires: 4-4-01

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Subsidiaries of the Registrant

Name of Subsidiary	State/Country of Incorporation/Organization
Skechers By Mail, Inc.	Delaware
Skechers U.S.A., Inc. II	Delaware
Skechers U.S.A. Ltd.	England
Skechers U.S.A. SAS	France
Skechers U.S.A. Deutschland GmbH	Germany
Skechers S.a.r.l.	Switzerland
Skechers U.S.A., Inc., Taiwan Branch	Taiwan
Skechers Collection LLC	California
Skechers Sport LLC	California
Duncan Investments, LLC	California
Yale Investments, LLC	Delaware

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Skechers U.S.A., Inc.:

We consent to the incorporation by reference in the registration statement on Form S-8 (Nos. 333-87009 and 333-87011) of Skechers U.S.A., Inc. of our report dated February 23, 2001 with respect to the consolidated balance sheets of Skechers U.S.A., Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2000, and related schedule, which report appears in the December 31, 2000, annual report on Form 10-K of Skechers U.S.A., Inc.

/s/ KPMG LLP

Los Angeles, California
March 29, 2001