CtW Investment Group

February 5, 2014

Board of Directors
Skechers U.S.A., Inc.
228 Manhattan Beach Boulevard
Manhattan Beach, California 90266

Dear Skechers Board Member:

The CtW Investment Group urges a complete and immediate overhaul of Skechers U.S.A., Inc.'s board of directors in light of several serious governance risks. Several directors have potential conflicts of interest that raise serious questions as to whether they are truly independent in spirit or only in resume. The poor track record of one director, in particular, raises doubts about the merits of his board membership. In addition, the board suffers from lengthy tenures and a lack of gender diversity, pointing to a possible flawed approach to recruitment.

Shareholders place a particularly high premium on independent and competent directors at Skechers given that it is a controlled company that structures its shares into two classes, combines the role of CEO and chair, allows a high number board seats to be held by insiders, and staggers director elections. Please explain why the current board set up is beneficial to all shareholders. Absent a convincing justification, we request that you hire an outside search firm to find qualified, independent nominees to refresh board membership in time for the 2014 annual meeting.

The recent Shape-Up debacle and current bribery investigation amplify the need for strong independent oversight. Not only did the false advertizing of the Shape-Up shoe line cost our company through fines, inventory write-downs, and legal expenses, but it drove a 25% fall in revenue, ground which the company has yet to fully regain. Most significantly, it damaged the company's brand just as the athletic shoe market as a whole went on to enjoy several years of outsized growth. Moreover, the FBI's ongoing investigation into the alleged bribery of San Moreno's Mayor and four city council members by Highland Fairview Developers to sweeten the land deal for Skechers' distribution center is worrisome. The fact that the California Fair Political Practices Commission just levied a fine on Skechers for late disclosures of political contributions to these same council members only heightens our concerns of a possible lax attitude towards compliance.

The CtW Investment Group works with pension and benefit funds sponsored by unions affiliated with Change to Win – a federation of unions representing over six million workers – to enhance long-term shareholder value through active ownership. These funds have over $250 billion in assets under management and are substantial Skechers shareholders.

Skechers board's independent oversight is compromised.

According to the most recent proxy statement, only five of our nine board members are deemed independent by the board: Richard Rappaport, Richard Siskind, Morton Erlich, Thomas Walsh, and Geyer Kosinski. Not only do we find this insufficient, but we fear that the objectivity of directors Rappaport, Siskind, and Erlich has been tainted by possible conflicts of interest. In particular, Mr. Rappaport's background makes him a poor choice for our company's board.

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Rappaport has a record of clashes with regulators and conflicts of interest.

We find Mr. Rappaport unsuitable to be a director of our company. Mr. Rappaport is the founder and CEO of WestPark Capital, a firm with a long history of run-ins with regulatory authorities, raising serious doubts as to his judgment and integrity.

- Over the past few years, Mr. Rappaport and WestPark Capital have been embroiled in the controversy surrounding the surge of delisted Chinese reverse merger companies. Mr. Rappaport persuaded Chinese companies to use an accelerated path to the US securities market, which he created, by merging with his inactive, publicly traded, shell companies. Five of the Chinese firms he brought onto US exchanges through the reverse merger process were delisted by the SEC after their auditor accused management of fraud, withdrew its past audit opinions, and resigned. Investors lost millions and numerous shareholder lawsuits, which named WestPark Capital as a defendant, ensued. The SEC is investigating the firms involved in these mergers.
- In 2012, WestPark Capital agreed to pay a fine of $59,125 to the Florida Office of Financial Regulation to settle a complaint alleging a failure to maintain accurate books and records, failure to implement the firm's anti-money laundering compliance program (AML), failure to analyze and monitor suspicious transactions, and failure to implement the AML's independent audit.
- In 2010, the Financial Industry Regulatory Authority (FINRA) ordered WestPark Capital to pay $100,000 in fines and $300,000 in restitution for having a deficient supervisory system leading to the hiring and inadequate supervision of several employees with backgrounds rich with disciplinary problems. Many customers sustained losses due to what FINRA termed the "unauthorized, excessive, and unsuitable trading" of these employees.
- In 2003, Mr. Rappaport was accused of knowingly issuing misleading reports and failing to have supervisory procedures to safeguard against such misdeeds. In 2004 the National Association of Securities Dealers (NASD) suspended Mr. Rappaport from principal activities for 30 days, barred him from issuing reports for six months, imposed a $50,000 fine, and required him to hire an outside consultant to review WestPark Capital's supervisory and operating procedures. In addition, he was banned from working as a principal for the offer or sale of securities in the state of Illinois for three years. Mr. Rappaport failed to abide by his 2004 suspension and was again suspended and fined another $10,000 by the NASD in 2006.

Mr. Rappaport's troublesome record raises questions as to how and why he came to be on our board. In our search for answers, we found that he had not only prior business dealings with Skechers but also with the spouse of a close associate of CEO Greenberg. Mr. Rappaport previously worked as the managing director for the underwriter of Skechers subsidiary Kani, Inc. Moreover, the shell companies involved in the Chinese reverse mergers were joint ventures between Mr. Rappaport and Deb Schwartzberg who was, along with other members of her immediate family, a co-investor of Skechers prior to its public offering.

Furthermore, Deb's husband, Gil Schwartzberg, is a trustee of several of CEO Greenberg's trusts and a major SKX shareholder, controlling 15% of the vote. Over a decade ago, Mr. Schwartzberg was the Chief Administrative Officer and a director of the Greenbergs' previous endeavor, LA Gear, until he was accused of inflating the company's earnings and insider trading. To settle these SEC charges, he agreed to pay a fine of one million dollars and agreed to a ban for life from serving on public company boards.

It is also of note that the lawyer involved in the Chinese reverse mergers was Thomas Poletti, Skechers' legal counsel from at least 1995 until 2002, and Skechers' board member and audit committee chair from 2002 through 2004. Mr. Poletti's relationships with both our company and Mr. Rappaport further suggest that Mr. Rappaport's business relationships are closely tied to our company.

Mr. Rappaport has not served on a board committee since his appointment in 2010. Please explain the rationale for his continued board service given his troublesome regulatory record and close connection to the CEO and founder.

Directors Siskind's and Erlich's former business relationships and long tenure could compromise their independent judgment.

When Mr. Siskind was recruited to be a director in 1999, he was the President and CEO of Stage II Apparel, where he and CEO Greenberg were both on the board of directors. Just before Mr. Siskind's nomination, Stage II acquired certain trademarks from our company by way of the Greenberg Family Trust. Once he joined Skechers' board, he and CEO Greenberg overlapped on the compensation committees of each other's companies. This relationship continued until 2002, when Mr. Siskind ceased to be CEO at Stage II and Skechers abolished its compensation committee. When Skechers re-established a compensation committee in 2006, Mr. Siskind became chair and remains in this role today.

Mr. Erlich worked for KPMG for 34 years and spent part of this time auditing Skechers' financials. In 2006, 15 months after his retirement, he joined our board. Incredibly, until KPMG's resignation as our auditor last spring following the insider-trading scandal of KPMG's lead auditor, Mr. Erlich, as chairman of the audit committee, was responsible for overseeing a firm at which he had worked for over three-decades, including as principal and lead audit partner. The average tenure of an audit committee member is 8 years. At a minimum, we believe Mr. Erlich should rotate off his role as chair of the audit committee.

Skechers board's nomination and recruitment process is flawed.

We are also concerned with the results of the board's current approach to identify qualified, independent, and diverse director nominees. While the lengthy tenures and lack of diversity among our directors are concerns in their own right, when combined with the problems identified above, they point to a broken nomination and governance process.

In the fourteen years since Skechers' IPO, little has changed in the composition of the board. Six of our company's nine board members have served for at least twelve years: Robert Greenberg, Michael Greenberg, David Weinberg, Richard Siskind, Jeffrey Greenberg, and Geyer Kosinski. Indeed, the newest board members, Mr. Walsh and Mr. Rappaport, were only added to the board after Skechers temporarily lost its "controlled company" status and had to meet a NYSE listing standard requiring an independent majority on the board. Despite being on the board for three years, neither director joined a committee. This leaves a very narrow committee composition with only three directors serving on any committee.

The complete lack of gender diversity is another troubling sign that the nominating committee is not casting a wide enough net and would benefit from a thorough board overhaul and the expertise of an outside search firm. According to our search through past proxy statements, Skechers has never had a female board member. We find this particularly alarming for Skechers, considering women make up a large portion of our company's customer base. Diversity in boardrooms is of growing concern to investors and other stakeholders as evidenced by the California Senate's recent passage of Resolution 62, urging California based companies to include more women in their boardrooms.

Due to the considerable indications of board insularity outlined in this letter, we believe that significant action is necessary.

We urge you to:

- Explain with specificity the merits of Mr. Rappaport, Mr. Siskind, and Mr. Erlich's board membership in light of the factors discussed here;
- Hire a recruiter to find a diverse mix of qualified, independent nominees to refresh board membership for the next annual meeting;
- Appoint new directors to serve as members of our committees; and
- Remedy the utter lack of gender diversity on the board by following the California Senate's directive and adopting a plan to work towards having three out of the nine board seats occupied by women and communicate it to shareholders.

We would like to meet with you to discuss the steps towards board renewal outlined above. Implementing these reforms is necessary to demonstrate to investors that you are making a good faith effort to restore the confidence lost by the Shape-Up fiasco. Absent these steps to reforming the board prior to next spring's annual meeting, we will consider voting against some or all of the directors who are up for re-election and urging others to do the same.

We respectfully request your prompt attention to this letter and expect to hear back from you soon.

Sincerely,

Dieter Waizenegger
Executive Director

cc: Robert Greenberg, Michael Greenberg, David Weinberg, Jeffery Greenberg, Geyer Kosinski, Thomas Walsh, Richard Siskind, Morton Erlich, and Richard Rappaport