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“Putting Your Foot In It:” SEC Sanctions Skechers for Undisclosed Transactions with Insiders and Their Families

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Skechers U.S.A., Inc. (“Skechers”) is not just any old shoe company. In fact, it is the third largest United States footwear company. Founded in 1992, it soon went public, becoming a Fortune 500 company in 2023. Its founder, Robert Greenberg, originally from Boston, came to Los Angeles in 1983, and together with two others started L.A. Gear, with supposedly advanced design footwear to serve those seeking athletic performance. By 1992 L.A. Gear had gone public, attempted to expand into women’s footwear, and stumbled into financial distress. Greenberg resigned, and then started Skechers. An American company incorporated in Delaware, Skechers nonetheless has most of its footwear products, including its headline “Slip-On” shoes, manufactured in China and Vietnam.

U.S. Securities and Exchange Commission (“SEC”) regulations, specifically Regulation S-K and those related to using proxies to solicit shareholder votes, requires detailed disclosure about the amount of compensation or other monetary consideration received by directors, executive officers, **and** persons related to either of those categories when the amount involved exceeds $120,000 in any fiscal year. Those disclosures must be made in the public company’s Annual Report on Form 10-K, as well as in the proxies solicited from shareholders as specified in Schedule 14 A. From fiscal years 2018 through 2021, Skechers failed to comply with these regulations, leading the SEC to issue an Order Instituting Cease-And-Desist Proceedings on March 7, 2024 (the “Order”).

In the Order, the Commission asserts that Skechers violated the cited regulations in its Annual Reports on Form 10-K for fiscal years 2018, 2019, 2020, and 2021, **as follows:**

1. 2018 - a person sharing the household of a director and executive officer received $210,000 in compensation from Skechers as an “independent contractor.”
2. 2019 – a person sharing the household of a director and executive officer received $210,000 in compensation from Skechers as an “independent contractor.”
3. 2020 – a sibling-in-law of a director and executive officer received $213,645 in compensation from Skechers as a non-executive employee of the company.
4. 2021 – a sibling-in-law of a director and executive officer received $155,419 in compensation from Skechers, and a sibling of a different director and executive officer received $486,790 in compensation from Skechers; each served as a non-executive employee of the company.

In each of those four years, Skechers filed definitive proxies with the SEC and solicited shareholder votes for election of directors without disclosing the foregoing information.

In addition, none of the proxy statements used to solicit shareholder votes disclosed the following:

1. One director and executive officer owed Skechers over $120,000 for personal expenses, not yet reimbursed, in each of the four years 2018 – 2021 and
2. Another director and executive officer owed Skechers over $120,000 for personal expenses not yet reimbursed in each of the three years 2019, 2020, and 2021.

In other words, the directors and executive officers of Skechers and their related parties treated the public company like a personal "piggy bank," without regard for the impact on the company's finances and its ability to increase expenditures on marketing, acquiring new equipment, or other business purposes. As a result of these four years of non-compliance, the SEC ordered that Skechers not only cease and desist from any future violations of the cited disclosure regulations, but also pay $1.25 million as a civil money penalty.

As Scott A. Thompson, Assistant Director of Enforcement in the SEC's Philadelphia Regional Office, is quoted as saying in the March 7, 2024 Press Release:

> *Disclosure of related person transactions provides important information for investors to evaluate the overall relationship between a company and its officers and directors.*

Indeed, that information allows shareholders to assess how corporate funds are being expended. Here, management chose to conceal the payment of corporate funds for the benefit of relatives and other related persons. Or as noted in the title of this blog – Skechers' directors, executive officers, and their related persons "Put Their Foot In It" to the detriment of the company and its shareholders.

The SEC is cracking down on "sketchy" financial affairs. With the enactment of requirements such as The Corporate Transparency Act, businesses must prepare accurate filings and paper trails.

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