STEVEN MADDEN, LTD.
Form 10-Q
August 07, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015
or
o 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 0-23702
STEVEN MADDEN, LTD.
(Exact name of registrant as specified in its charter)

Delaware	13-3588231
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
52-16 Barnett Avenue, Long Island City, New York	11104
(Address of principal executive offices)	(Zip Code)

(718) 446-1800
(Registrant’s telephone number, including area code)

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

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (do not check if smaller reporting company)	Smaller reporting company o

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

As of August 5, 2015, the latest practicable date, there were 63,164,505 shares of the registrant's common stock, $.0001 par value, outstanding.

STEVEN MADDEN, LTD.
FORM 10-Q
QUARTERLY REPORT
June 30, 2015

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements
STEVEN MADDEN, LTD. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in thousands)

	June 30, 2015 (unaudited)	December 31, 2014	June 30, 2014 (unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$68,994	$81,450	$155,836
Accounts receivable, net of allowances of $1,819, $880 and $1,958	17,957	10,551	12,209
Factor accounts receivable, net of allowances of $20,643, $22,683 and $12,892	200,921	184,043	190,232
Inventories	112,434	92,677	87,310
Marketable securities – available for sale	31,210	31,198	33,494
Prepaid expenses and other current assets	21,720	17,131	20,093
Prepaid taxes	6,485	11,051	—
Deferred taxes	14,071	14,125	11,982
Total current assets	473,792	442,226	511,156
Notes receivable	1,299	1,878	2,552
Note receivable – related party	3,159	3,328	3,581
Property and equipment, net	70,036	68,905	59,434
Other assets	5,661	10,036	7,069
Marketable securities – available for sale	89,429	90,446	93,336
Goodwill – net	143,571	154,759	96,324
Intangibles – net	151,694	139,657	132,042
Total Assets	$938,641	$911,235	$905,494
LIABILITIES			
Current liabilities:			
Accounts payable	$105,431	$92,635	$125,862
Accrued expenses	89,804	67,828	39,032
Income taxes payable	—	—	1,631
Contingent payment liability – current portion	17,934	11,455	5,280
Accrued incentive compensation	3,057	5,673	3,189
Total current liabilities	216,226	177,591	174,994
Contingent payment liability	17,607	27,178	25,100
Deferred rent	11,876	11,573	10,039
Deferred taxes	18,498	24,706	15,627
Other liabilities	1,630	658	139
Total Liabilities	265,837	241,706	225,899
Commitments, contingencies and other			
STOCKHOLDERS' EQUITY			
Preferred stock – $.0001 par value, 5,000 shares authorized; none issued; Series A Junior Participating preferred stock – $.0001 par value, 60 shares authorized; none issued	—	—	—
Common stock – $.0001 par value, 135,000 shares authorized, 85,007, 83,491 and 83,184 shares issued, 63,160, 63,625 and 65,652 shares outstanding	6	6	8

Additional paid-in capital	312,798	275,039	259,806
Retained earnings	828,231	783,904	723,683
Accumulated other comprehensive loss	(17,568)	(12,752)	(3,804)
Treasury stock – 21,847, 19,866, and 17,532 shares at cost	(451,098)	(376,942)	(300,324)
Total Steven Madden, Ltd. stockholders’ equity	672,369	669,255	679,369
Non-controlling interests	435	274	226
Total stockholders’ equity	672,804	669,529	679,595
Total Liabilities and Stockholders’ Equity	$938,641	$911,235	$905,494

See accompanying notes to condensed consolidated financial statements - unaudited.

1

STEVEN MADDEN, LTD. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(unaudited)
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net sales	$323,582	$295,715	$647,527	$600,339
Cost of sales	207,436	188,655	420,003	384,931
Gross profit	116,146	107,060	227,524	215,408
Commission and licensing fee income – net	3,127	3,187	7,045	6,358
Operating expenses	(82,456)	(69,935)	(164,860)	(145,461)
Impairment charge	—	—	(3,045)	—
Income from operations	36,817	40,312	66,664	76,305
Interest and other income – net	670	1,053	1,166	2,086
Income before provision for income taxes	37,487	41,365	67,830	78,391
Provision for income taxes	12,723	13,226	23,131	26,222
Net income	24,764	28,139	44,699	52,169
Net income attributable to non-controlling interests	261	137	372	530
Net income attributable to Steven Madden, Ltd.	$24,503	$28,002	$44,327	$51,639
Basic net income per share	$0.41	$0.45	$0.75	$0.83
Diluted net income per share	$0.40	$0.44	$0.72	$0.80
Basic weighted average common shares outstanding	59,302	61,987	59,453	62,402
Effect of dilutive securities – options/restricted stock	2,115	2,231	2,294	2,273
Diluted weighted average common shares outstanding	61,417	64,218	61,747	64,675

See accompanying notes to condensed consolidated financial statements - unaudited.

STEVEN MADDEN, LTD. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income
(unaudited)
(in thousands)

	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
	Pre-tax amounts	Tax benefit/(expense)	After-tax amounts	Pre-tax amounts	Tax benefit/(expense)	After-tax amounts
Net income			$24,764			$44,699
Other comprehensive (loss) income:						
Foreign currency translation adjustment	$1,489	$ —	1,489	$(4,495)	$ —	(4,495)
Gain (loss) on cash flow hedging derivatives	140	(51)	89	(540)	197	(343)
Unrealized gain (loss) on marketable securities	(811)	296	(515)	31	(11)	20
Total other comprehensive (loss) income	$818	$ 245	1,063	$(5,004)	$ 186	(4,818)
Comprehensive income			25,827			39,881
Comprehensive income attributable to non-controlling interests			261			372
Comprehensive income attributable to Steven Madden, Ltd.			$25,566			$39,509

	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
	Pre-tax amounts	Tax benefit/(expense)	After-tax amounts	Pre-tax amounts	Tax benefit/(expense)	After-tax amounts
Net income			$28,139			$52,169
Other comprehensive (loss) income:						
Foreign currency translation adjustment	$2,935	$ —	2,935	$(44)	$ —	(44)
Gain (loss) on cash flow hedging derivatives	395	(152)	243	712	(274)	438
Unrealized gain (loss) on marketable securities	2,024	(789)	1,235	4,062	(1,584)	2,478
Total other comprehensive (loss) income	$5,354	$ (941)	4,413	$4,730	$ (1,858)	2,872
Comprehensive income			32,552			55,041
Comprehensive income attributable to non-controlling interests			137			530
Comprehensive income attributable to Steven Madden, Ltd.			$32,415			$54,511

See accompanying notes to condensed consolidated financial statements - unaudited.

STEVEN MADDEN, LTD. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(unaudited)
(in thousands)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$44,699	$52,169
Adjustments to reconcile net income to net cash provided by operating activities:		
Tax benefit from the exercise of stock options	(8,974)	(1,140)
Depreciation and amortization	9,265	7,206
Loss on disposal of fixed assets	661	78
Impairment charge	3,045	—
Deferred taxes	(6,856)	3,921
Note receivable - related party	169	—
Stock-based compensation	9,082	9,776
Deferred rent	303	604
Realized gain on sale of marketable securities	96	4
Contingent liability	(142)	(1,100)
Changes, net of acquisitions, in:		
Accounts receivable, net of allowances	(7,406)	29,664
Factor accounts receivable, net of allowances	(16,878)	(46,682)
Inventories	(19,256)	(13,614)
Prepaids and other assets	11,183	1,020
Accounts payable and other accrued expenses	34,792	25,907
Net cash provided by operating activities	53,783	67,813
Cash flows from investing activities:		
Purchases of property and equipment	(8,452)	(8,022)
Purchases of marketable securities	(27,093)	(15,012)
Sales of marketable securities	26,224	3,901
Repayment of notes receivable	240	383
Acquisitions, net of cash acquired	(8,729)	(6,750)
Net cash used for investing activities	(17,810)	(25,500)
Cash flows from financing activities:		
Common stock repurchases for treasury	(74,156)	(65,609)
Proceeds from exercise of stock options	19,703	1,032
Tax benefit from the exercise of stock options	8,974	1,140
Payment of contingent liability	(2,950)	(3,315)
Net cash used for financing activities	(48,429)	(66,752)
Net decrease in cash and cash equivalents	(12,456)	(24,439)
Cash and cash equivalents – beginning of period	81,450	180,275
Cash and cash equivalents – end of period	$68,994	$155,836

See accompanying notes to condensed consolidated financial statements - unaudited.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements – Unaudited
June 30, 2015
($ in thousands except share and per share data)

Note A – Basis of Reporting

The accompanying unaudited condensed consolidated financial statements of Steven Madden, Ltd. and subsidiaries (the “Company”) have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the financial position of the Company and the results of its operations and cash flows for the periods presented. Certain adjustments were made to prior years' amounts to conform to the 2015 presentation. The results of operations for the three and six month periods ended June 30, 2015 are not necessarily indicative of the operating results for the full year. These financial statements should be read in conjunction with the financial statements and related disclosures for the year ended December 31, 2014 included in the Annual Report of Steven Madden, Ltd. on Form 10-K filed with the SEC on February 26, 2015.

Note B – Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant areas involving management estimates include allowances for bad debts, returns and customer chargebacks, inventory valuation, valuation of intangible assets, litigation reserves and contingent payment liabilities. The Company provides reserves on trade accounts receivables and factor receivables for future customer chargebacks and markdown allowances, discounts, returns and other miscellaneous compliance related deductions that relate to the current period sales. The Company evaluates anticipated chargebacks by reviewing several performance indicators of its major customers. These performance indicators, which include retailers’ inventory levels, sell-through rates and gross margin levels, are analyzed by management to estimate the amount of the anticipated customer allowance.

Note C – Factor Receivable

The Company has a collection agency agreement with Rosenthal & Rosenthal, Inc. (“Rosenthal”) that became effective on September 15, 2009. The agreement can be terminated by the Company or Rosenthal at any time upon 60 days prior written notice. Under the agreement, the Company can request advances from Rosenthal of up to 85% of aggregate receivables submitted to Rosenthal. The agreement provides the Company with a $30 million credit facility with a $15 million sub-limit for letters of credit at an interest rate based, at the Company’s election, upon a calculation that utilizes either the prime rate minus 0.5% or LIBOR plus 2.5%. The Company also pays Rosenthal a fee based on a percentage of the gross invoice amount submitted to Rosenthal. With respect to receivables related to our private label business, the fee is 0.14% of the gross invoice amount. With respect to all other receivables, the fee is 0.20% of the gross invoice amount. Rosenthal assumes the credit risk on a substantial portion of the receivables that the Company submits to it and, to the extent of any loans made to the Company, Rosenthal maintains a lien on all of the Company’s receivables to secure the Company’s obligations.

Note D – Notes Receivable

As of June 30, 2015 and December 31, 2014, Notes Receivable were comprised of the following:

	June 30, 2015	December 31, 2014

Note receivable from seller of SM Canada	$1,299	$1,878

In connection with the Company's February 21, 2012 acquisition of all of the assets comprising the footwear, handbags and accessories wholesale and retail businesses of Steve Madden Canada Inc., Steve Madden Retail Canada Inc., Pasa Agency Inc.

5

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements – Unaudited
June 30, 2015
($ in thousands except share and per share data)

Note D – Notes Receivable (continued)

and Gelati Imports Inc. (collectively, "SM Canada"), which had been the Company's sole distributor in Canada since 1994, the Company provided an interest-free loan to the seller of SM Canada in the principal amount of $3,107 Canadian dollars (which converted to approximately $3,085 in U.S. dollars at the time of the acquisition). The note is payable in five annual installments, which are due on the same dates that the five annual earn-out payments (to the extent such contingent consideration is earned as a result of SM Canada's financial performance in the earn-out periods; see Note F) are payable by the Company to the seller of SM Canada. The note was recorded net of the imputed interest, which will be amortized to income over the term of the note.

To the extent that any earn-out payment is not achieved in future earn-out periods, the repayment of the note may result in less than the entire principal amount of the loan being repaid. In such event the unpaid annual installment of the principal amount of the note will be forgiven.

Note E – Marketable Securities

Marketable securities consist primarily of certificates of deposit and corporate bonds with maturities greater than three months and up to ten years at the time of purchase as well as marketable equity securities. These securities, which are classified as available-for-sale, are carried at fair value, with unrealized gains and losses, net of any tax effect, reported in stockholders' equity as accumulated other comprehensive income (loss). For the three and six months ended June 30, 2015, gains of $0 and $96 were reclassified from accumulated other comprehensive income and recognized in the income statement in other income compared to gains of $2 and $4 for the comparable periods in 2014. These securities are classified as current and non-current marketable securities based upon their maturities. Amortization of premiums and discounts is included in interest income. For the three and six months ended June 30, 2015, the amortization of bond premiums totaled $348 and $693 compared to $136 and $273 for the comparable periods in 2014. The values of these securities may fluctuate as a result of changes in equity values, market interest rates and credit risk. The schedule of maturities at June 30, 2015 and December 31, 2014 are as follows:

	Maturities as of June 30, 2015		Maturities as of December 31, 2014	
	1 Year or Less	1 to 10 Years	1 Year or Less	1 to 10 Years
Corporate bonds	$12,776	$89,429	$11,363	$90,446
Certificates of deposit	18,434	—	19,835	—
Total	$31,210	$89,429	$31,198	$90,446

Note F – Fair Value Measurement

The accounting guidance under Accounting Standards Codification "Fair Value Measurements and Disclosures" ("ASC 820-10") requires the Company to make disclosures about the fair value of certain of its assets and liabilities. ASC 820-10 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. ASC 820-10 utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. A brief description of those three levels is as follows:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- Level 3: Significant unobservable inputs.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements – Unaudited
June 30, 2015
($ in thousands except share and per share data)

Note F – Fair Value Measurement (continued)

The Company’s financial assets and liabilities subject to fair value measurements as of June 30, 2015 and December 31, 2014 are as follows:

		June 30, 2015		
		Fair Value Measurements		
	Fair value	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$2,506	$2,506	$—	$—
Current marketable securities – available for sale (a)	31,210	31,210	—	—
Note receivable – related party (b)	3,159	—	—	3,159
Note receivable from seller of SM Canada (c)	1,299	—	—	1,299
Long-term marketable securities – available for sale (d)	89,429	89,429	—	—
Total assets	$127,603	$123,145	$—	$4,458
Liabilities:				
Forward contracts	$2,543	$—	$2,543	$—
Contingent consideration (e)	35,541		—	35,541
Total liabilities	$38,084	$—	$2,543	$35,541

(a) Current marketable securities includes unrealized losses of $277.
(b) The decrease in the balance of the note receivable from related party is due to forgiveness of $204, partially offset by accrued interest income of $35.
(c) The decrease in the balance of the note receivable from the seller of SM Canada is due to principal payments of $240 made in the second quarter in connection with the earn-out payment and of $339 in foreign currency translation.
(d) Long-term marketable securities includes unrealized gains of $110 and unrealized losses of $491.
(e) The decrease in the contingent consideration at June 30, 2015 compared to December 31, 2014 is due to an earn-out payment of $2,950 during the second quarter of 2015 to the seller of SM Canada and a change in present value of the expected future payments.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements – Unaudited
June 30, 2015
($ in thousands except share and per share data)

Note F – Fair Value Measurement (continued)

		December 31, 2014		
		Fair Value Measurements		
	Fair value	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$2,280	$2,280	$—	$—
Current marketable securities – available for sale (a)	31,198	31,198	—	—
Note receivable – related party (b)	3,328	—	—	3,328
Note receivable from seller of SM Canada (c)	1,878	—	—	1,878
Long-term marketable securities – available for sale (d)	90,446	90,446	—	—
Total assets	$129,130	$123,924	$—	$5,206
Liabilities:				
Forward contracts	$2,334	$—	$2,334	$—
Contingent consideration (e)	38,633	—	—	38,633
Total liabilities	$40,967	$—	$2,334	$38,633

(a) Current marketable securities includes unrealized gains of $1 and unrealized losses of $145.
(b) The decrease in the balance of the note receivable from related party is due to one-tenth forgiveness of $409, partially offset by accrued interest income of $156.
(c) The decrease in the balance of the note receivable from the seller of SM Canada is due to principal payments of $893 and $400 in foreign currency translation.
(d) Long-term marketable securities includes unrealized gains of $11 and unrealized losses of $589.
(e) The change in the contingent consideration is due to an earn-out payment of $3,315 during the second quarter of 2014 to the seller of SM Canada, an earn-out payment of $5,160 during the third quarter of 2014 to the seller of Cejon and a decrease of $2,139 due to a change in estimate of expected payments. These were offset by the addition of earn-out payments to the seller of Dolce Vita of $4,616 and SM Mexico of $9,836.

The Company enters into forward contracts (see Note O) to manage the risk associated with the volatility of future cash flows denominated in Mexican pesos. Fair value of these instruments is based on observable market transactions of spot and forward rates.
For the note receivable due from related party (see Note I) and from the seller of SM Canada (see Note D), the carrying value was determined to be the fair value, based upon their imputed or actual interest rates, which approximate current market interest rates.

The Company has recorded a liability for potential contingent consideration in connection with the December 30, 2014 acquisition of SM Mexico (see Note M). Pursuant to the terms of an earn-out agreement between the Company and the seller of SM Mexico, earn-out payments will be due annually to the seller of SM Mexico based on the financial performance of SM Mexico for each of the twelve-month periods ending on December 31, 2015 and 2016, inclusive. The fair value of the contingent payments was estimated using the present value of management's projections of the financial results of SM Mexico during the earn-out period.

The Company has recorded a liability for potential contingent consideration in connection with the August 13, 2014 acquisition of Dolce Vita (see Note M). Pursuant to the terms of an earn-out agreement between the Company and the seller of Dolce Vita, earn-out payments will be due annually to the seller of Dolce Vita based on the financial performance of Dolce Vita for each of the twelve-month periods ending on September 30, 2015 and 2016, inclusive, provided that the aggregate minimum earn-out payment shall be no less than $5,000. The fair value of the contingent payments was estimated using the present value of management's projections of the financial results of Dolce Vita during the earn-out period.

The Company has recorded a liability for potential contingent consideration in connection with the February 21, 2012 acquisition of SM Canada. Pursuant to the terms of an earn-out agreement between the Company and the seller of SM Canada, earn-out payments will be due annually to the seller of SM Canada based on the financial performance of SM Canada for each of the twelve-month periods ending on March 31, 2013 through 2017, inclusive. The fair value of the contingent payments was estimated using the present value of management's projections of the financial results of SM Canada during the earn-out period. The current portion

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements – Unaudited
June 30, 2015
($ in thousands except share and per share data)

Note F – Fair Value Measurement (continued)

of the earn-out due based on the twelve-month period ending March 31, 2016 approximates the recorded value. An earn-out payment of $2,950 for the period ended March 31, 2015 was paid to the seller of SM Canada in the second quarter this year.

The Company has recorded a liability for potential contingent consideration in connection with the May 25, 2011 acquisition of Cejon Inc., Cejon Accessories, Inc. and New East Designs, LLC (collectively "Cejon"). Pursuant to the terms of an earn-out agreement between the Company and the sellers of Cejon, earn-out payments will be made annually to the sellers of Cejon, based on the financial performance of Cejon for each of the twelve-month periods ending on June 30, 2012 through 2016, inclusive. The fair value of the remaining contingent payments was estimated using the present value of management's projections of the financial results of Cejon during the earn-out period.

The carrying value of certain financial instruments such as accounts receivable, factor accounts receivable and accounts payable approximates their fair values due to the short-term nature of their underlying terms. The fair values of investment in marketable securities available for sale are determined by reference to publicly quoted prices in an active market.

Note G – Revenue Recognition

The Company recognizes revenue on wholesale sales when (i) products are shipped pursuant to its standard terms, which are freight on board (“FOB”) Company warehouse, or when products are delivered to the consolidators, or any other destination, as per the terms of the customers’ purchase order, (ii) persuasive evidence of an arrangement exists, (iii) the price is fixed and determinable and (iv) collection is reasonably assured. Sales reductions on wholesale sales for anticipated discounts, allowances and other deductions are recognized during the period when sales are recorded. With the exception of our cold weather accessories business, we do not accept returns from our wholesale customers unless there are product quality issues, which we charge back to the vendors. Sales of cold weather accessories to wholesale customers are recorded net of returns, which are estimated based on historical experience. Such amounts have historically not been material. Retail sales are recognized when the payment is received from customers and are recorded net of estimated returns. The Company generates commission income acting as a buying agent by arranging to manufacture private label shoes to the specifications of its customers. The Company’s commission revenue also includes fees charged for its design, product and development services provided to certain suppliers in connection with the Company’s private label business. Commission revenue and product and development fees are recognized as earned when title to
the product transfers from the manufacturer to the customer and collections are reasonably assured and are reported on a net basis after deducting related operating expenses.

The Company licenses its Steve Madden® and Steven by Steve Madden® trademarks for use in connection with the manufacture, marketing and sale of sunglasses, eyewear, outerwear, bedding, hosiery, women's fashion apparel, jewelry, watches and luggage. In addition, the Company licenses the Betsey Johnson® and Betseyville® trademarks for use in connection with the manufacture, marketing and sale of apparel, jewelry, swimwear, eyewear, watches, fragrances and outerwear. The license agreements require the licensee to pay the Company a royalty and, in substantially all of the agreements, an advertising fee based on the higher of a minimum or a net sales percentage as defined in the various agreements. In addition, under the terms of retail selling agreements, most of the Company’s international distributors are required to pay the Company a royalty based on a percentage of net sales, in addition to a commission and a design fee on the purchases of the Company's products. Licensing revenue is recognized on the basis of net sales reported by the licensees, or the minimum guaranteed royalties, if higher.

In substantially all of the Company's license agreements, the minimum guaranteed royalty is earned and receivable on a quarterly basis.

Note H – Sales Deductions

The Company supports retailers' initiatives to maximize sales of the Company's products on the retail floor by subsidizing the co-op advertising programs of such retailers, providing them with inventory markdown allowances and participating in various other marketing initiatives of its major customers. In addition, the Company accepts returns for damaged products for which the Company's costs are normally charged back to the responsible third-party factory. Such expenses are reflected in the condensed consolidated financial statements as deductions to net sales.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements – Unaudited
June 30, 2015
($ in thousands except share and per share data)

Note I – Note Receivable – Related Party
On June 25, 2007, the Company made a loan to Steve Madden, its Creative and Design Chief and a principal stockholder of the Company, in the amount of $3,000 in order for Mr. Madden to satisfy a personal tax obligation resulting from the exercise of stock options that were due to expire and to retain the underlying Company common stock, which common stock he pledged to the Company as collateral to secure the loan. Mr. Madden executed a secured promissory note in favor of the Company bearing interest at an annual rate of 8%, which was due on the earlier of the date Mr. Madden ceases to be employed by the Company or December 31, 2007. The note was amended and restated as of December 19, 2007 to extend the maturity date to March 31, 2009, and amended and restated again as of April 1, 2009 to change the interest rate to 6% and the maturity date to June 30, 2015 at which time all principal and accrued interest would become due. On January 3, 2012, in connection with an amendment of Mr. Madden's employment contract, the note was again amended and restated (the "Third Amended and Restated Note") to extend its maturity date to December 31, 2023 and eliminate the accrual of interest after December 31, 2011. In addition, the Third Amended and Restated Note provides that, commencing on December 31, 2014, and annually on each December 31 thereafter through the maturity date, one-tenth of the principal amount thereof, together with accrued interest, will be cancelled by the Company, provided that Mr. Madden continues to be employed by the Company on each such December 31. As of December 31, 2011, $1,090 of interest has accrued on the principal amount of the loan related to the period prior to the elimination of the accrual of interest and has been reflected on the Company's Condensed Consolidated Financial Statements. Based upon the increase in the market value of the Company's common stock since the inception of the loan, on July 12, 2010, the Company released from its security interest a portion of the shares of the Company's common stock, pledged by Mr. Madden as collateral for the loan. The number of shares of the Company's common stock currently securing the repayment of the loan is 472,500 shares. On June 30, 2015, the total market value of these shares was $17,955. Pursuant to the elimination of further interest accumulation under the Third Amended and Restated Note, the outstanding principal and the accrued interest has been discounted to reflect imputed interest, which will be amortized over the remaining life of the loan. On December 31, 2014, the Company also recorded a charge in the amount of $409 to write-off the required one-tenth of the principal amount of the Third Amended and Restated Note, which was partially offset by $156 of accrued interest.
Note J – Share Repurchase Program

The Company's Board of Directors authorized a share repurchase program (the "Share Repurchase Program"), effective as of January 1, 2004. The Share Repurchase Program does not have a fixed expiration or termination date and may be modified or terminated by the Board of Directors at any time. On several occasions the Board of Directors has increased the amount authorized for repurchase. On February 20, 2015, the Board of Directors approved the extension of the Share Repurchase Program for an additional $150,000 in repurchases of the Company's common stock. The Share Repurchase Program permits the Company to effect repurchases from time to time through a combination of open market repurchases or in privately negotiated transactions at such prices and times as are determined to be in the best interest of the Company. During the six months ended June 30, 2015, an aggregate of 1,981,503 shares of the Company's common stock were repurchased under the Share Repurchase Program, at an average price per share of $37.42, for an aggregate purchase price of approximately $74,156. As of June 30, 2015, approximately $125,608 remained available for future repurchases under the Share Repurchase Program.

Note K – Net Income Per Share of Common Stock

Basic net income per share is based on the weighted average number of shares of common stock outstanding during the period, which does not include unvested restricted common stock subject to forfeiture of 4,068,000 shares for the three and six months ended June 30, 2015, respectively, compared to 4,161,000 and 4,170,000 shares for the three and six months ended June 30, 2014, respectively. Diluted net income per share reflects: (a) the potential dilution assuming shares of common stock were issued upon the exercise of outstanding in-the-money options and the proceeds thereof were used to purchase shares of the Company’s common stock at the average market price during the period, and (b) the vesting of granted nonvested restricted stock awards for which the assumed proceeds upon vesting are deemed to be the amount of compensation cost not yet recognized attributable to future services using the treasury stock method, to the extent dilutive. For the three and six months ended June 30, 2015, options to purchase approximately 0 and 12,000 shares of common stock, respectively, have been excluded in the calculation of diluted net income per share as compared to 326,000 and 210,000 shares that were excluded for the three and six months ended June 30, 2014, as the result would have been antidilutive. For the three and six months ended June 30, 2015 and 2014, all unvested restricted stock awards were dilutive.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements – Unaudited
June 30, 2015
($ in thousands except share and per share data)

Note L – Equity-Based Compensation

In March 2006, the Company's Board of Directors approved the Steven Madden, Ltd. 2006 Stock Incentive Plan (the "Plan") under which nonqualified stock options, stock appreciation rights, performance shares, restricted stock, other stock-based awards and performance-based cash awards may be granted to employees, consultants and non-employee directors. The stockholders approved the Plan on May 26, 2006. On May 25, 2007, the stockholders approved an amendment to the Plan to increase the maximum number of shares that may be issued under the Plan from 4,050,000 to 5,231,250. On May 22, 2009, the stockholders approved a second amendment to the Plan that increased the maximum number of shares that may be issued under the Plan to 13,716,000. On May 25, 2012, the stockholders approved a third amendment to the Plan that increased the maximum number of shares that may be issued under the Plan to 23,466,000. The following table summarizes the number of shares of common stock authorized for use under the Plan, the number of stock-based awards granted (net of expired or cancelled awards) under the Plan and the number of shares of common stock available for the grant of stock-based awards under the Plan:

Common stock authorized	23,466,000
Stock-based awards, including restricted stock and stock options granted, net of expired or cancelled	(19,070,000)
Common stock available for grant of stock-based awards as of June 30, 2015	4,396,000

Total equity-based compensation for the three and six months ended June 30, 2015 and 2014 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Restricted stock	$3,568	$3,728	$7,328	$7,513
Stock options	756	1,124	1,754	2,263
Total	$4,324	$4,852	$9,082	$9,776

Equity-based compensation is included in operating expenses on the Company's Condensed Consolidated Statements of Income.

Stock Options

Cash proceeds and intrinsic values related to total stock options exercised during the three and six months ended June 30, 2015 and 2014 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Proceeds from stock options exercised	$2,897	$511	$19,703	$1,032
Intrinsic value of stock options exercised	$1,848	$549	$29,294	$1,135

During the three and six months ended June 30, 2015, options to purchase approximately 94,674 shares of common stock with a weighted average exercise price of $25.55 and options to purchase approximately 393,201 shares of common stock with a weighted average exercise price of $26.70 vested, respectively. During the three and six months ended June 30, 2014, options to purchase approximately 193,264 shares of common stock with a weighted average exercise price of $19.36 and options to purchase approximately 430,774 shares of common stock with a weighted average exercise price of $21.16 vested, respectively. As of June 30, 2015, there were unvested options relating to

712,206 shares of common stock outstanding with a total of $6,090 of unrecognized compensation cost and an average vesting period of 2.50 years.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of options granted, which requires several assumptions. The expected term of the options represents the estimated period of time until exercise and is based on the historical experience of similar awards. Expected volatility is based on the historical volatility of the Company's common stock. The risk

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements – Unaudited
June 30, 2015
($ in thousands except share and per share data)

Note L – Equity-Based Compensation (continued)

free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. With the exception of special dividends paid in November of 2005 and 2006, the Company historically has not paid regular cash dividends and thus the expected dividend rate is assumed to be zero. The following weighted average assumptions were used for stock options granted during the six months ended June 30, 2015 and 2014:

	2015	2014
Volatility	22.4% to 28.3%	29.0% to 31.8%
Risk free interest rate	0.99% to 1.60%	1.06% to 1.74%
Expected life in years	4.1 to 5.1	4.1 to 5.1
Dividend yield	0.00%	0.00%
Weighted average fair value	$8.70	$10.10

Activity relating to stock options granted under the Company's plans and outside the plans during the six months ended June 30, 2015 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2015	3,428,000	$19.48		
Granted	59,000	35.78		
Exercised	(1,309,000)	15.06		
Cancelled/Forfeited	(9,000)	29.59		
Outstanding at June 30, 2015	2,169,000	$22.57	5.0 years	$42,046
Exercisable at June 30, 2015	1,457,000	$17.55	2.5 years	$35,558

Restricted Stock

The following table summarizes restricted stock activity during the six months ended June 30, 2015 and 2014:

	2015		2014	
	Number of Shares	Weighted Average Fair Value at Grant Date	Number of Shares	Weighted Average Fair Value at Grant Date
Non-vested at January 1,	4,067,000	$24.69	4,257,000	$24.24
Granted	246,000	36.40	161,000	35.12
Vested	(222,000)	22.94	(228,000)	24.28
Forfeited	(68,000)	34.27	(2,000)	27.03
Non-vested at June 30,	4,023,000	$25.16	4,188,000	$24.51

As of June 30, 2015, the Company had $76,720 of total unrecognized compensation cost related to restricted stock awards granted under the Plan. This cost is expected to be recognized over a weighted average of 7.50 years. The Company determines the fair value of its restricted stock awards based on the market price of its common stock on the date of grant.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements – Unaudited
June 30, 2015
($ in thousands except share and per share data)

Note L – Equity-Based Compensation (continued)

On January 3, 2012, the Company and its Creative and Design Chief, Steven Madden, entered into an amendment of Mr. Madden's existing employment agreement, pursuant to which, on February 8, 2012, Mr. Madden was granted 1,463,057 restricted shares of the Company's common stock at the then market price of $27.34, which will vest in equal annual installments over a seven-year period commencing on December 31, 2017 and, thereafter, on each December 31 through December 31, 2023, subject to Mr. Madden's continued employment on each such vesting date. Pursuant to the contract, on June 30, 2012, Mr. Madden exercised his right to receive an additional restricted stock award, and, on July 3, 2012, he was granted 1,893,342 restricted shares of the Company's common stock at the then market price of $21.13, which will vest in the same manner as the aforementioned grant.

Note M – Acquisitions

Blondo

On January 23, 2015 the Company acquired the trademarks and other intellectual property and related assets of Blondo, a fashion-oriented footwear brand specializing in waterproof leather boots, from Regence Footwear Inc. and 3074153 Canada Inc. for a purchase price of approximately $9,129. The purchase price has been preliminarily allocated as follows:

Inventory	$233
Trademarks	7,196
Total fair value excluding goodwill	7,429
Goodwill	1,700
Net assets acquired	$9,129

SM Mexico

On December 30, 2014, the Company purchased all of the outstanding capital stock of Trendy Imports S.A. de C.V., Comercial Diecisiette S.A. de C.V., and Maximus Designer Shoes S.A. de C.V. (together, "SM Mexico"). SM Mexico is a division of Grupo Dicanco, which has been the exclusive distributor of the Company's products in Mexico since 2005. The total purchase price for the acquisition was approximately $25,172, which is subject to a working capital adjustment. The total purchase price includes a cash payment at closing of $15,336, plus potential earn-out payments based on the achievement of certain earnings targets for each of the twelve month periods ending December 31, 2015 and 2016. The fair value of the contingent payments was estimated using the present value of management's projections of the financial results of SM Mexico during the earn-out period. At December 31, 2014, the Company estimated the fair value of the contingent consideration to be $9,836.

The transaction was accounted for using the acquisition method required by GAAP. Accordingly, the assets and liabilities of SM Mexico were recorded at their fair values, and the excess of the purchase price over the fair value of the assets acquired and liabilities assumed, including identified intangible assets, was recorded as goodwill. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, which are subject to change. The purchase price has been preliminarily allocated as follows:

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements – Unaudited
June 30, 2015
($ in thousands except share and per share data)

Note M – Acquisitions (continued)

Accounts Receivable	$890	
Inventory	4,760	
Fixed assets	1,525	
Other assets	4,065	
Accounts payable	(4,144	)
Deposits & other	(1,241	)
Total fair value excluding goodwill	5,855	
Goodwill	19,317	
Net assets acquired	$25,172	

The allocation of the purchase price is based on certain preliminary valuations and analysis that have not been completed as of the date of this filing. Any changes in the estimated fair values of the assets acquired, including identifiable intangible assets, and liabilities assumed upon the finalization of more detailed analysis, within the measurement period, will change the allocation of the purchase price. Any subsequent changes to the purchase price allocation that are material will be adjusted retroactively. Contingent consideration classified as a liability will be remeasured at fair value at each reporting date, until the contingency is resolved, with changes recognized in earnings. The goodwill related to this transaction is expected to be deductible for tax purposes over 15 years.

Dolce Vita

On August 13, 2014, the Company purchased all of the outstanding capital stock of Dolce Vita Holdings, Inc., a Washington corporation ("Dolce Vita"). The total purchase price for the acquisition was approximately $62,146 which includes a cash payment at closing of $56,872 plus potential earn-out payments based on achievement of certain earnings targets for each of the twelve month periods ending on September 30, 2015 and 2016 provided that the aggregate minimum earn-out payment for such two year earn-out period shall be no less than $5,000. The fair value of the contingent payments was estimated using the present value of
management's projections of the financial results of Dolce Vita during the earn-out period. At August 13, 2014, the Company estimated the fair value of the contingent consideration to be $4,616.

The transaction was accounted for using the acquisition method required by GAAP. Accordingly, the assets and liabilities of Dolce Vita were recorded at their fair values, and the excess of the purchase price over the fair value of the assets acquired and liabilities assumed, including identified intangible assets, was recorded as goodwill. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, which are subject to change. The purchase price has been preliminarily allocated as follows:

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements – Unaudited
June 30, 2015
($ in thousands except share and per share data)

Note M – Acquisitions (continued)

Cash	$1,481
Accounts receivable	11,872
Inventory	11,498
Fixed assets	2,019
Trade name	12,200
Customer Relations	12,270
Prepaid and other assets	1,289
Accounts payable	(13,569)
Accrued expenses	(2,500)
Other liabilities	(1,355)
Total fair value excluding goodwill	35,205
Goodwill	26,941
Net assets acquired	$62,146

The allocation of the purchase price is based on certain preliminary valuations and analysis that have not been completed as of the date of this filing. Any changes in the estimated fair values of the assets acquired, including identifiable intangible assets, and liabilities assumed upon the finalization of more detailed analysis, within the measurement period, will change the allocation of the purchase price. Any subsequent changes to the purchase price allocation that are material will be adjusted retroactively. Contingent consideration classified as a liability will be remeasured at fair value at each reporting date, until the contingency is resolved, with changes recognized in earnings. The goodwill related to this transaction is expected to be deductible for tax purposes over 15 years.

Note N – Goodwill and Intangible Assets

The following is a summary of the carrying amount of goodwill by segment as of June 30, 2015:

	Wholesale Footwear	Accessories	Retail	Net Carrying Amount
Balance at January 1, 2015	$87,637	$49,324	$17,798	$154,759
Acquisitions (1)	1,700	—	—	1,700
Purchase accounting adjustment (2)	(12,408)	—	—	(12,408)
Translation and other	(244)	—	(236)	(480)
Balance at June 30, 2015	$76,685	$49,324	$17,562	$143,571

(1) Includes goodwill related to the purchase of Blondo in January 2015.
(2) Amount represents preliminary purchase price allocation of trademarks related to the Dolce Vita acquisition originally recorded in goodwill.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements – Unaudited
June 30, 2015
($ in thousands except share and per share data)

Note N – Goodwill and Intangible Assets (continued)
The following table details identifiable intangible assets as of June 30, 2015:

	Estimated Lives	Cost Basis	Accumulated Amortization (1)	Impairment (2)	Net Carrying Amount
Trade names	6–10 years	$4,590	$2,713	$—	$1,877
Customer relationships	10 years	39,609	15,491	—	24,118
License agreements	3–6 years	5,600	5,600	—	—
Non-compete agreement	5 years	2,440	2,271	—	169
Other	3 years	14	14	—	—
		52,253	26,089	—	26,164
Re-acquired right	indefinite	35,200	6,958	—	28,242
Trademarks	indefinite	100,333	—	3,045	97,288
		$187,786	$33,047	$3,045	$151,694

(1) Includes the effect of foreign currency translation related primarily to the movements of the Canadian dollar in relation to the U.S. dollar.
(2) An impairment charge of $3,045 was recorded in the first quarter of 2015 related to the Company's Wild Pair trademark. The impairment was triggered by a loss of future anticipated cash flows from a significant customer.

The estimated future amortization expense of purchased intangibles as of June 30, 2015 is as follows:

2015 (remaining six months)	$1,864
2016	3,472
2017	3,240
2018	3,103
2019	3,029
Thereafter	11,456
	$26,164

Note O – Derivative Instruments

The Company uses derivative instruments, specifically, forward foreign exchange contracts, to manage the risk associated with the volatility of future cash flows denominated in Mexican pesos. The foreign exchange contracts are used to mitigate the impact of exchange rate fluctuations on forecasted purchases of inventory from Mexico and are designated as cash flow hedging instruments. As of June 30, 2015, the fair value of the Company's foreign currency derivatives, which is included on the Condensed Consolidated Balance Sheets in accrued expenses, is $2,543. As of June 30, 2015, $1,903 of losses related to cash flow hedges are recorded in accumulated other comprehensive loss, net of taxes and are expected to be recognized in earnings at the same time the hedged items affect earnings. As of June 30, 2014, $156 of gains related to cash flow hedges were recorded in accumulated other comprehensive loss, net of taxes. As of June 30, 2015, the Company's hedging activities were considered effective and, thus, no ineffectiveness from hedging activities were recognized in the Condensed Consolidated Statements of Income. For the three and six months ended June 30, 2015, losses of $511 and $725 were reclassified from accumulated other comprehensive income and recognized in the income statement in cost of sales, as compared to gains of $26 and $13 for the three and six months ended June 30, 2014.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements – Unaudited
June 30, 2015
($ in thousands except share and per share data)

Note P – Commitments, Contingencies and Other
Legal proceedings:

Information regarding certain specific legal proceedings in which the Company is involved is contained in Part 1, Item 3, and in Note O to the notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Unless otherwise indicated in this report, all proceedings discussed in the earlier reports which are not indicated therein as having been concluded, remain outstanding as of June 30, 2015.

The Company has been named as a defendant in certain other lawsuits in the normal course of business. In the opinion of management, after consulting with legal counsel, the liabilities, if any, resulting from these matters should not have a material effect on the Company's financial position or results of operations. It is the policy of management to disclose the amount or range of reasonably possible losses in excess of recorded amounts.

Note Q – Operating Segment Information

The Company operates the following business segments: Wholesale Footwear, Wholesale Accessories, Retail, First Cost and Licensing. The Wholesale Footwear segment, through sales to department stores, mid-tier retailers, mass market merchants, online retailers and specialty stores, derives revenue, both domestically and worldwide (via our International business), from sales of branded and private label women’s, men’s, girls’ and children’s footwear. The Wholesale Accessories segment, which includes branded and private label handbags, belts and small leather goods as well as cold weather and selected other fashion accessories, derives revenue, both domestically and worldwide (via our International business), from sales to department stores, mid-tier retailers, mass market merchants, online retailers and specialty stores. Our Wholesale Footwear and Wholesale Accessories segments, through our International business, derive revenue from Canada, Mexico and South Africa and, under special distribution arrangements, from Asia, Australia, Europe, the Middle East, India, South and Central America and New Zealand. The Retail segment, through the operation of Company-owned retail stores in the United States, Canada, Mexico and South Africa and the Company’s websites, derives revenue from sales of branded women’s, men’s and children’s footwear, accessories and licensed products to consumers. The First Cost segment represents activities of a subsidiary that earns commissions and design fees for serving as a buying agent of footwear products to mass-market merchandisers, mid-tier department stores and other retailers with respect to their purchase of footwear. In the Licensing segment, the Company generates revenue by licensing its Steve Madden® and Steven by Steve Madden® trademarks and other trademark rights for use in connection with the manufacture, marketing and sale of sunglasses, eyewear, outerwear, bedding, hosiery and women's fashion apparel, jewelry, watches and luggage. In addition, this segment licenses the Betsey Johnson® and Betseyville® trademarks for use in connection with the manufacture, marketing and sale of apparel, jewelry, swimwear, eyewear, watches, fragrances and outerwear.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements – Unaudited
June 30, 2015
($ in thousands except share and per share data)

Note Q – Operating Segment Information (continued)

As of and three months ended, June 30, 2015	Wholesale Footwear	Wholesale Accessories	Total Wholesale	Retail	First Cost	Licensing	Consolidated
Net sales to external customers	$200,303	$66,384	$266,687	$56,895			$323,582
Gross profit	56,886	22,579	79,465	36,681			116,146
Commissions and licensing fees – net	—	—	—	—	$1,184	$1,943	3,127
Income from operations	17,636	10,237	27,873	5,817	1,184	1,943	36,817
Segment assets	$541,287	$207,821	749,108	150,594	38,939	—	938,641
Capital expenditures			$2,474	$2,309	$—	$—	$4,783
June 30, 2014							
Net sales to external customers	$192,365	$57,434	$249,799	$45,916			$295,715
Gross profit	57,660	20,542	78,202	28,858			107,060
Commissions and licensing fees – net	—	—	—	—	$1,563	$1,624	3,187
Income from operations	25,594	10,316	35,910	1,215	1,563	1,624	40,312
Segment assets	$581,362	$165,435	746,797	127,913	30,784	—	905,494
Capital expenditures			$2,014	$1,616	$—	$—	$3,630

As of and six months ended, June 30, 2015	Wholesale Footwear	Wholesale Accessories	Total Wholesale	Retail	First Cost	Licensing	Consolidated
Net sales to external customers	$424,617	$118,281	$542,898	$104,629			$647,527
Gross profit (a)	125,075	39,586	164,661	62,863			227,524
Commissions and licensing fees – net	—	—	—	—	$2,712	$4,333	7,045
Income from operations (a)	39,764	15,621	55,385	4,234	2,712	4,333	66,664
Segment assets	$541,287	$207,821	749,108	150,594	38,939	—	938,641

Capital expenditures			$4,665	$3,787	$—	$—	$8,452
June 30, 2014							
Net sales to external customers	$412,104	$102,715	$514,819	$85,520			$600,339
Gross profit	126,693	37,806	164,499	50,909			215,408
Commissions and licensing fees – net	—	—	—	—	$2,975	$3,383	6,358
Income (loss) from operations	56,665	16,274	72,939	(2,992)	2,975	3,383	76,305
Segment assets	$581,362	$165,435	746,797	127,913	30,784	—	905,494
Capital expenditures			$4,227	$3,795	$—	$—	$8,022

(a) Does not sum due to rounding.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements – Unaudited
June 30, 2015
($ in thousands except share and per share data)

Note Q – Operating Segment Information (continued)

Revenues by geographic area for the three and six months ended June 30, 2015 and 2014 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Domestic (a)	$286,443	$269,437	$574,574	$550,819
International	37,139	26,278	72,953	49,520
Total	$323,582	$295,715	$647,527	$600,339

(a) Includes revenues of $80,058 and $158,185 for the three and six months ended June 30, 2015, respectively, and $76,632 and $159,320 for the comparable periods in 2014 related to sales to U.S. customers where the title is transferred outside the U.S. and the sale is recorded by our International business.

Note R – Recent Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board issued Accounting Standards Update 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. Accounting Standards Update 2015-11 defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new guidance must be applied on a prospective basis and is effective for periods beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the effect that the new guidance will have on its financial statements and related disclosures.

In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance, Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, on revenue recognition. The new standard provides for a single five-step model to be applied to all revenue contracts with customers as well as requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. Accounting Standards Update No. 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. On July 9, 2015, the FASB agreed to delay the effective date by one year. In accordance with the delay, the new standard is effective beginning in the first quarter of 2018. Early adoption is permitted, but not before the original effective date of the standard. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q.

All references in this Quarterly Report to "we," "our," "us" and the "Company," refer to Steven Madden, Ltd. and its subsidiaries unless the context indicates otherwise.

This Quarterly Report contains certain "forward-looking statements" as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally, forward-looking statements relate to business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, projected or anticipated benefits from acquisitions to be made by us, or projections involving anticipated revenues, earnings or other aspects of our operating results. The words "may", "will", "expect", "believe", "anticipate", "project", "plan", "intend", "estimate", and "continue", and their opposites and similar expres intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, that may influence the accuracy of the statements and the projections upon which the statements are based. Factors that may affect our results include, but are not limited to, the risks and uncertainties discussed in our Annual Report on Form 10-K for the year ended December 31, 2014. Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.

Overview:

($ in thousands, except retail sales data per square foot, earnings per share and per share data)

Steven Madden, Ltd. and its subsidiaries (collectively, the "Company") design, source, market and sell fashion-forward name brand and private label footwear for women, men and children and name brand and private label fashion handbags and accessories. We also license our trademarks for use in connection with the manufacture, marketing and sale of various products to our licensees. Our products are marketed through our retail stores and our e-commerce websites, as well as better department stores, major department stores, mid-tier department stores, specialty stores, luxury retailers, value priced retailers, national chains, mass market merchants and catalog retailers throughout the United States, Canada, Mexico and South Africa. In addition, we have special distribution arrangements for the marketing and sale of our products in Asia, Australia, Europe, India, the Middle East, Mexico, South and Central America and New Zealand. We offer a broad range of updated styles designed to establish or complement and capitalize on market trends. We have established a reputation for design creativity and our ability to offer quality products in popular styles at affordable prices, delivered in an efficient manner and time frame.

Key Performance Indicators and Statistics

The following measurements are among the key business indicators reviewed by various members of management to measure consolidated and segment results of the Company:

- net sales
- gross profit margin
- operating expenses
- income from operations
- adjusted EBITDA
- adjusted EBIT
- same store sales

- inventory turnover
- accounts receivable average collection days
- cash flow and liquidity determined by the Company’s working capital and free cash flow
- store metrics such as sales per square foot, average unit retail, conversion, average units per transaction, and contribution margin.

While not all of these metrics are disclosed due to the proprietary nature of the information, many of these metrics are disclosed and discussed in this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Non-GAAP Measures

The Company's reported results are presented in accordance with GAAP. The Company uses adjusted earnings before interest and taxes ("Adjusted EBIT") and adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), as calculated in the table below, as non-GAAP measures, in internal management reporting and planning processes as well as in evaluating the performance of the Company. Management believes these measures are useful to investors in evaluating the Company's ongoing operating and financial results. By providing these non-GAAP measures, as a supplement to GAAP information, we believe we are enhancing investors' understanding of our business and our results of operations. The non-GAAP financial measures are limited in their usefulness and should be considered in addition to, and not in lieu of, U.S. GAAP financial measures. Further, these non-GAAP measures may be unique to the Company, as they may be different from non-GAAP measures used by other companies.

The table below reconciles these metrics to net income as presented in the condensed consolidated statements of income.

	Year-To-Date Period Ended ($ in thousands)		
	June 30, 2015	December 31, 2014	June 30, 2014
Net Income	$44,699	$112,629	$52,169
Add back:			
Provision for income taxes	23,131	58,764	26,222
Deduct:			
Other Income	96	677	3
Interest, net	1,069	3,074	2,082
Adjusted EBIT	66,665	167,642	76,306
Add back:			
Depreciation and amortization	9,265	14,519	7,206
Loss on disposal of fixed assets	661	291	78
Adjusted EBITDA	76,591	182,452	83,590

Executive Summary

Net sales for the quarter ended June 30, 2015 increased 9.4% to $323,582 from $295,715 in the same period of last year. Net income attributable to Steven Madden, Ltd. decreased 12.5% to $24,503 in the second quarter of 2015 compared to $28,002 in the same period of last year. The effective tax rate for the second quarter of 2015 increased to 33.9% compared to 32.0% in the second quarter of last year primarily due to a discrete benefit of $1,252 in the prior year effective tax rate related to state taxes. Diluted earnings per share decreased to $0.40 per share on 61,417 diluted weighted average shares outstanding compared to $0.44 per share on 64,218 diluted weighted average shares outstanding in the second quarter of last year. The financial information includes the results of operations of our recent acquisitions which include Dolce Vita, SM Mexico and Blondo from their respective dates of acquisition. When significant the results of operations section discusses results excluding acquisitions.

Our inventory turnover (calculated on a trailing twelve month average) excluding acquisitions for the quarter ended June 30, 2015 and 2014 was 10.3 times and 10.7 times, respectively. Our accounts receivable average collection was 73 days in the second quarter of 2015, flat compared to the comparable period in 2014. As of June 30, 2015, we had $189,633 in cash, cash equivalents and marketable securities, no long-term debt and total stockholders' equity of $672,804. Working capital decreased to $257,566 as of June 30, 2015, compared to $336,162 on June 30, 2014.

The following tables set forth information on operations for the periods indicated:
Selected Financial Information
Three Months Ended June 30,
($ in thousands)

	2015			2014		
CONSOLIDATED:						
Net sales	$323,582	100.0	%	$295,715	100.0	%
Cost of sales	207,436	64.1	%	188,655	63.8	%
Gross profit	116,146	35.9	%	107,060	36.2	%
Commission and licensing fee income – net of expenses	3,127	1.0	%	3,187	1.1	%
Operating expenses	82,456	25.5	%	69,935	23.6	%
Income from operations	36,817	11.4	%	40,312	13.6	%
Interest and other income – net	670	0.2	%	1,053	0.4	%
Income before income taxes	37,487	11.6	%	41,365	14.0	%
Net income attributable to Steven Madden, Ltd.	24,503	7.6	%	28,002	9.5	%
By Segment:						
WHOLESALE FOOTWEAR SEGMENT:						
Net sales	$200,303	100.0	%	$192,365	100.0	%
Cost of sales	143,417	71.6	%	134,705	70.0	%
Gross profit	56,886	28.4	%	57,660	30.0	%
Operating expenses	39,250	19.6	%	32,066	16.7	%
Income from operations	17,636	8.8	%	25,594	13.3	%
WHOLESALE ACCESSORIES SEGMENT:						
Net sales	$66,384	100.0	%	$57,434	100.0	%
Cost of sales	43,805	66.0	%	36,892	64.2	%
Gross profit	22,579	34.0	%	20,542	35.8	%
Operating expenses	12,342	18.6	%	10,226	17.8	%
Income from operations	10,237	15.4	%	10,316	18.0	%
RETAIL SEGMENT:						
Net sales	$56,895	100.0	%	$45,916	100.0	%
Cost of sales	20,214	35.5	%	17,058	37.2	%
Gross profit	36,681	64.5	%	28,858	62.8	%
Operating expenses	30,864	54.2	%	27,643	60.2	%
Loss from operations	5,817	10.2	%	1,215	2.6	%
Number of stores	161			124		
FIRST COST SEGMENT:						
Other commission income – net of expenses	$1,184	100.0	%	$1,563	100.0	%
LICENSING SEGMENT:						
Licensing income – net of expenses	$1,943	100.0	%	$1,624	100.0	%

Selected Financial Information
Six Months Ended June 30,
($ in thousands)

	2015			2014		
CONSOLIDATED:						
Net sales	$647,527	100.0	%	$600,339	100.0	%
Cost of sales	420,003	64.9	%	384,931	64.1	%
Gross profit	227,524	35.1	%	215,408	35.9	%
Commission and licensing fee income – net of expenses	7,045	1.1	%	6,358	1.1	%
Operating expenses	164,860	25.5	%	145,461	24.2	%
Impairment charge	3,045	0.5	%	—	—	%
Income from operations	66,664	10.3	%	76,305	12.7	%
Interest and other income – net	1,166	0.2	%	2,086	0.3	%
Income before income taxes	67,830	10.5	%	78,391	13.1	%
Net income attributable to Steven Madden, Ltd.	44,327	6.8	%	51,639	8.6	%
By Segment:						
WHOLESALE FOOTWEAR SEGMENT:						
Net sales	$424,617	100.0	%	$412,104	100.0	%
Cost of sales	299,542	70.5	%	285,411	69.3	%
Gross profit	125,075	29.5	%	126,693	30.7	%
Operating expenses	85,311	20.1	%	70,028	17.0	%
Income from operations	39,764	9.4	%	56,665	13.8	%
WHOLESALE ACCESSORIES SEGMENT:						
Net sales	$118,281	100.0	%	$102,715	100.0	%
Cost of sales	78,695	66.5	%	64,909	63.2	%
Gross profit	39,586	33.5	%	37,806	36.8	%
Operating expenses	23,965	20.3	%	21,532	21.0	%
Income from operations	15,621	13.2	%	16,274	15.8	%