BALLANTYNE STRONG, INC.
Form 10-Q
May 08, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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: 1-13906

BALLANTYNE STRONG, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**47-0587703** (IRS Employer Identification Number)
13710 FNB Parkway, Suite 400 **Omaha, Nebraska** (Address of Principal Executive Offices)	**68154** (Zip Code)

(402) 453-4444

(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 twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically 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 No

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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

Class	Outstanding as of May 5, 2014
Common Stock, $.01, par value	14,139,462 shares

TABLE OF CONTENTS

PART I. Financial Information

Item 1. Condensed Consolidated Financial Statements

Ballantyne Strong, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands)

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 25,491	$ 28,791
Accounts receivable (net of allowance for doubtful accounts of $759 and $703, respectively)	16,511	20,047
Inventories:		
Finished goods, net	10,597	10,949
Work in process	359	345
Raw materials and components, net	4,304	3,891
Total inventories, net	15,260	15,185
Recoverable income taxes	3,445	2,207
Other current assets	5,500	5,873
Total current assets	66,207	72,103
Property, plant and equipment (net of accumulated depreciation of $5,007 and $4,781, respectively)	14,202	14,721
Note receivable	2,611	2,497
Intangible assets, net	939	895
Goodwill	1,080	1,123
Other assets	3,672	4,105
Total assets	$ 88,711	$ 95,444
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 9,483	$ 12,844
Accrued expenses	4,962	6,236
Customer deposits/deferred revenue	3,621	3,474
Income tax payable	496	888
Total current liabilities	18,562	23,442
Deferred revenue	2,643	3,008

Deferred income taxes	755	790
Other accrued expenses, net of current portion	1,781	1,748
Total liabilities	23,741	28,988
Stockholders' equity:		
Preferred stock, par value $.01 per share; Authorized 1,000 shares, none outstanding	—	—
Common stock, par value $.01 per share; Authorized 25,000 shares; issued 16,869 shares at March 31, 2014 and December 31, 2013, respectively; 14,138 shares outstanding at March 31, 2014 and December 31, 2013, respectively	167	167
Additional paid-in capital	38,332	38,231
Accumulated other comprehensive income:		
Foreign currency translation	(1,989)	(959)
Postretirement benefit obligations	190	190
Retained earnings	46,509	47,066
	83,209	84,695
Less 2,731 of common shares in treasury, at cost at March 31, 2014 and December 31, 2013	(18,239)	(18,239)
Total stockholders' equity	64,970	66,456
Total liabilities and stockholders' equity	$ 88,711	$ 95,444

See accompanying notes to condensed consolidated financial statements.

Ballantyne Strong, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

Three Months Ended March 31, 2014 and 2013

(In thousands, except per share data)

(Unaudited)

	2014	**2013**
Net product sales	$14,834	$25,196
Net service revenues	7,187	2,425
Total net revenues	22,021	27,621
Cost of products sold	12,450	21,593
Cost of services	5,355	2,114
Total cost of revenues	17,805	23,707
Gross profit	4,216	3,914
Selling and administrative expenses:		
Selling	1,546	866
Administrative	3,893	2,501
Total selling and administrative expenses	5,439	3,367
Gain (loss) on sale or disposal of assets	7	2
Income (loss) from operations	(1,216)	549
Equity in income (loss) of joint venture	95	(106)
Other income (expense):		
Interest income	177	22
Interest expense	(9)	(7)
Other income (expense), net	209	248
Total other income (expense)	377	263
Earnings (loss) before income taxes	(744)	706
Income tax benefit (expense)	150	(141)
Net earnings (loss)	$(594)	$565
Basic earnings (loss) per share	$(0.04)	$0.04
Diluted earnings (loss) per share	$(0.04)	$0.04
Weighted average shares outstanding:		
Basic	14,026	13,979
Diluted	14,026	14,023

See accompanying notes to condensed consolidated financial statements.

4

Ballantyne Strong, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

Three Months Ended March 31, 2014 and 2013

(In thousands)

(Unaudited)

	2014	2013
Net earnings (loss)	$(594)	$565
Currency translation adjustment		
Unrealized net change arising during period	(1,030)	(401)
Other comprehensive loss	(1,030)	(401)
Comprehensive income (loss)	$(1,624)	$164

See accompanying notes to condensed consolidated financial statements.

Ballantyne Strong, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

Three Months Ended March 31, 2014 and 2013

(In thousands)

(Unaudited)

	2014	**2013**
Cash flows from operating activities:		
Net earnings (loss)	$(594)	$565
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for doubtful accounts	69	30
Provision for obsolete inventory	(8)	24
Provision for warranty	(134)	106
Depreciation and amortization	434	338
Equity in (income) loss of joint venture	(95)	106
Loss on forward contracts	348	—
(Gain) loss on disposal or transfer of assets	(7)	2
Deferred income taxes	519	(10)
Share-based compensation expense	101	95
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts, unbilled and notes receivable	3,709	6,010
Inventories	(179)	(2,773)
Other current assets	(200)	821
Accounts payable	(3,314)	(1,810)
Accrued expenses	(1,343)	(315)
Customer deposits/deferred revenue	(208)	(859)
Current income taxes	(1,599)	(444)
Other assets	(56)	43
Net cash (used in) provided by operating activities	(2,557)	1,929
Cash flows from investing activities:		
Capital expenditures	(258)	(73)
Proceeds from sales of assets	56	2
Net cash used in investing activities	(202)	(71)
Cash flows from financing activities:		
Proceeds from employee stock purchase plan	—	4
Net cash provided by financing activities	—	4
Effect of exchange rate changes on cash and cash equivalents	(541)	(167)
Net increase (decrease) in cash and cash equivalents	(3,300)	1,695
Cash and cash equivalents at beginning of year	28,791	40,168
Cash and cash equivalents at end of year	$25,491	$41,863

See accompanying notes to condensed consolidated financial statements.

Ballantyne Strong, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

1. Nature of Operations

Ballantyne Strong, Inc. ("Ballantyne" or the "Company"), a Delaware corporation, and its wholly owned subsidiaries Strong Westrex, Inc., Strong Technical Services, Inc., Strong/MDI Screen Systems, Inc., Peintures Elite, Inc. ("Peintures"), Strong Westrex (Beijing) Trading Inc., Convergent Corporation and Convergent Media Systems Corporation ("CMS") designs, integrates, and installs technology solutions for a broad range of applications; develops and delivers out-of-home messaging, advertising and communications; manufactures projection screens and lighting products; and provides managed services including monitoring of networked equipment to our customers. As of January 1, 2014 the legal entity Peintures Elite, Inc. was dissolved and consolidated into Strong/MDI Screen Systems, Inc.

The Company's products are distributed to the retail, financial, government and cinema markets throughout the world.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and all majority owned and controlled domestic and foreign subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated financial statements included in this report are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America for annual reporting purposes or those made in the Company's Annual Report on Form 10-K. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year-ended December 31, 2013.

The condensed consolidated balance sheet as of December 31, 2013 was derived from the Company’s audited consolidated balance sheet as of that date. All other condensed consolidated financial statements contained herein are unaudited and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary to present a fair statement of the financial position and the results of operations and cash flows for the respective interim periods. The results for interim periods are not necessarily indicative of trends or results expected for a full year.

Acquisitions

On September 13, 2013, the Company acquired Peintures Elite, Inc., a manufacturer of paint and lacquer products and the primary provider of paint used in the Company’s screen manufacturing. On October 1, 2013, the Company acquired CMS to provide digital technologies for out-of-home messaging, advertising and communication (the DOOH market) and Enterprise Video Solutions (“EVS”), which provides enterprises with the infrastructure necessary for communications, collaboration, training and education of employees.

The condensed consolidated financial statements as of December 31, 2013, March 31, 2014, and for the three-month period ended March 31, 2014, include amounts acquired from, as well as the results of operations of Peintures and CMS. Peintures is included in the systems integration segment and CMS is included in the managed services segment.

Reclassifications

Certain prior year amounts presented in the condensed consolidated financial statements and notes thereto have been reclassified to conform to the current year presentation. These reclassifications did not impact the Company’s net income (loss) for 2014 or 2013.

Use of Management Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results and changes in facts and circumstances may alter such estimates and affect results of operations and financial position in future periods.

7

Fair Value of Financial and Derivative Instruments

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - inputs to the valuation techniques are quoted prices in active markets for identical assets or liabilities
Level 2 - inputs to the valuation techniques are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly
Level 3 - inputs to the valuation techniques are unobservable for the assets or liabilities

The following tables present the Company’s financial assets and liabilities measured at fair value based upon the level within the fair value hierarchy in which the fair value measurements fall.

Fair values measured on a recurring basis at March 31, 2014:

	Level 1	**Level 2**	**Level 3**	**Total**
	(in thousands)			
Cash and cash equivalents	$25,491	$—	$—	$25,491
Note receivable	$—	$—	$2,611	$2,611
Foreign exchange forward contract asset	$—	$11,961	$—	$11,961
Foreign exchange forward contract liability	$—	$(12,000)	$—	$(12,000)

Fair values measured on a recurring basis at December 31, 2013:

	Level 1	**Level 2**	**Level 3**	**Total**
	(in thousands)			
Cash and cash equivalents	$28,791	$—	$—	$28,791
Note receivable	$—	$—	$2,497	$2,497
Foreign exchange forward contract asset	$—	$10,934	$—	$10,934
Foreign exchange forward contract liability	$—	$(11,000)	$—	$(11,000)

The note receivable accrue interest at a rate of 15% per annum which is paid in accordance with an agreed-upon cash flow schedule.

Quantitative information about the Company's level 3 fair value measurements at March 31, 2014 is set forth below:

$ in thousands	**Fair Value at 3/31/2014**	**Valuation Technique**	**Unobservable input**	**Range**
Note receivable	$ 2,611	Discounted cash flow	Probability of default	0 %
			Prepayment rates	0 %
			Loss severity	0 %

The significant unobservable inputs used in the fair value measurement of the Company's notes receivable are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of these inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and directionally opposite change in the assumption used for prepayment rates.

The following table reconciles the beginning and ending balance of the Company's Note Receivable fair value:

	Three months ended March 31,	
	2014	**2013**
	$ in thousands	
Note receivable balance, beginning of period	$2,497	$2,232
Interest income accrued	114	—
Note receivable balance, end of period	$2,611	$2,232

The carrying values of all other financial assets and liabilities including accounts receivable, accounts payable and accrued expenses reported in the consolidated balance sheets equal or approximate their fair values due to the short-term nature of these instruments. All non-financial assets that are not recognized or disclosed at fair value in the financial statements on a recurring basis, which includes non-financial long-lived assets, are measured at fair value in certain circumstances (for example, when there is evidence of impairment). During the quarter ended March 31, 2014 we did not have any significant non-recurring measurements of non-financial assets or liabilities.

Recently Issued Accounting Pronouncements

There are no recently issued accounting pronouncements which the Company believes will materially impact its consolidated financial statements.

3. Earnings (Loss) Per Common Share

Basic earnings (loss) per share have been computed on the basis of the weighted average number of shares of common stock outstanding. Diluted earnings (loss) per share has been computed on the basis of the weighted average number of shares of common stock outstanding after giving effect to potential common shares from dilutive stock options and certain non-vested shares of restricted stock. The following table provides the reconciliation between basic and diluted earnings (loss) per share:

	Three Months Ended March 31,	
	2014	**2013**
(In thousands, except per share data)		
Basic earnings (loss) per share:		
Earnings (loss) applicable to common stock	$(594)	$565
Basic weighted average common shares outstanding	14,026	13,979
Basic earnings (loss) per share	$(0.04)	$0.04
Diluted earnings (loss) per share:		
Earnings (loss) applicable to common stock	$(594)	$565
Basic weighted average common shares outstanding	14,026	13,979
Dilutive effect of stock options and restricted stock awards	—	44
Dilutive weighted average common shares outstanding	14,026	14,023
Diluted earnings (loss) per share	$(0.04)	$0.04

For the three months ended March 31, 2014 and 2013 options to purchase 50,000 and 191,200 shares of common stock, respectively were outstanding but were not included in the computation of diluted earnings per share as the option's exercise price was greater than the average market price of the common shares for the respective periods. An additional 48,486 options were excluded from the three month period ended March 31, 2014 as their inclusion would be anti-dilutive, thereby decreasing the net loss per share.

4. Warranty Reserves

Historically, the Company has generally granted a warranty to its customers for a one-year period following the sale of manufactured film projection equipment and on selected repaired equipment for a one-year period. In most instances, the digital products are covered by the manufacturing firm's OEM warranty; however, there are certain customers where the Company may grant warranties in excess of the manufacturer's warranty for digital products. The Company accrues for these costs at the time of sale or repair. The following table summarizes warranty activity for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	**2013**
(In thousands)		
Warranty accrual at beginning of period	$662	$770
Charged to expense	36	56
Amounts written off, net of recoveries	(149)	(68)
Foreign currency adjustment	(5)	2
Warranty accrual at end of period	$544	$760

5. Digital Link II Joint Venture

On March 6, 2007, the Company entered into an agreement with RealD to form an operating entity Digital Link II, LLC (the "LLC"). Under the agreement, the LLC was formed with the Company and RealD as the only two members with membership interests of 44.4% and 55.6%, respectively. The LLC was formed for purposes of commercializing certain 3D technology and to fund the deployment of digital projector systems and servers to exhibitors.

The Company accounts for its investment by the equity method. Under this method, the Company recorded its proportionate share of LLC net income or loss based on the LLC's financial statements as of March 31, 2014 and March 23, 2013, respectively. The LLC uses four 13-week periods for a total of 52 weeks to align its fiscal year-end with that of its majority interest holder, RealD. The Company's portion of income (loss) of the LLC was approximately $0.1 million for the quarter ended March 31, 2014 and $(0.1) million for the quarter ended March 31, 2013.

In the past, the Company sold digital theatre projection equipment, in the normal course of business, to the LLC. The LLC in turn provides and sells the digital projection equipment to third party customers under system use agreements or through sales agreements. Revenue recognized by the Company on the sale transaction to the LLC is limited by its 44.4% ownership in the joint venture which will be recognized upon sale of the equipment to the third parties. There were no sales to the LLC during the quarters ended March 31, 2014 and 2013. The total receivable balance due from the LLC was insignificant at March 31, 2014 and December 31, 2013.

The Company received no distributions from the LLC in the first quarter of 2013 or 2014.

6. Goodwill

The following represents a summary of changes in the Company's carrying amount of goodwill for the quarter ended March 31, 2014 (in thousands):

Balance as of December 31, 2013	$1,123
Foreign currency translation	(43)
Balance as of March 31, 2014	$1,080

7. Restructuring Activities

In connection with the integration of the 2013 CMS acquisition, as well as the Company's ongoing plans to improve efficiency and effectiveness of its operations, the Company initiated plans in the fourth quarter of 2013 to reduce headcount and move the Company's warehouse from Omaha, Nebraska to Georgia. The Company recorded $1.4 million in severance costs it expects to incur in relation to the integration. Additionally, $0.06 million in costs were recorded for site closure of the Omaha warehouse. The restructuring initiative is expected to be completed by the first quarter of 2015.

The following table reconciles the beginning and ending restructuring balance for the quarter ended March 31, 2014, which are included in accrued expenses:

	(in thousands)
Accrued liability at beginning of period	$ 896
Severance paid	(148)
Site closure costs paid	(58)
Accrued liability at end of period	$ 690

8. Debt

The Company is a party to a $20 million Revolving Credit Agreement and Note (collectively, the "Credit Agreement") with Wells Fargo Bank, N.A. ("Wells Fargo"). The Company may request an increase in the Credit Agreement of up to an additional $5 million; however, any advances on the additional $5 million are subject to approval of Wells Fargo. The borrowings from the Credit Agreement are to be used for working capital purposes and for other general corporate purposes. The Company's accounts receivable, general intangibles and inventory secure the Credit Agreement.

The Revolving Credit Agreement contains certain covenants, including those relating to our financial condition. The primary financial condition covenants pertain to maintaining a ratio of total liabilities to tangible net worth of less than 2 to 1 and net income before taxes of $1 on a rolling 4-quarter basis, as defined in the Revolving Credit Agreement. Other covenants pertain to items such as certain limits on incurring additional debt or lease obligations, certain limits on issuing guarantees and certain limits on loans, advances and investments with third parties. Upon the occurrence of any event of default specified in the Revolving Credit Agreement, including a change in control of the Company (as defined in the Credit Agreement), all amounts due there under may be declared to be immediately due and payable. At March 31, 2014, the Company did not meet the requirement for net income before taxes on a rolling 4-quarter basis to equal or exceed $1. The Company obtained a waiver from Wells Fargo of the March 31, 2014 covenant violation. The agreement expires June 30, 2014.

10

Since inception of the agreement, no amounts have been borrowed on the Revolving Credit Agreement. At March 31, 2014, the Company had availability of $20 million.

9. Income Taxes

The effective tax rate (calculated as a ratio of income tax expense to pretax earnings, inclusive of equity method investment losses) was approximately 20.2% and 20.0% for the quarters ended March 31, 2014 and 2013, respectively. The effective tax rate differs from the statutory rates primarily as a result of differing foreign and U.S. tax rates applied to respective pre-tax earnings by tax jurisdiction. The Company's estimated annual effective rate for the first quarter of 2014 was consistent to the first quarter of 2013 due to a similar breakout of earnings by taxing jurisdiction.

The Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant taxable authorities. The Company has examinations not yet initiated for Federal purposes for fiscal years 2005 through 2010 and 2012. The company is currently undergoing an examination for 2011. In most cases, the Company has examinations open for state or local jurisdictions based on the particular jurisdiction's statute of limitations. The Company does not currently have any state or local examinations in process. As of March 31, 2014, total unrecognized tax benefits amounted to approximately $0.1 million.

10. Stock Compensation

The Company recognizes compensation expense for all share-based payment awards made to employees and directors based on their estimated fair values. Share-based compensation expense included in selling and administrative expenses approximated $0.1 million for the three months ended March 31, 2014 and 2013, respectively.

Long-Term Incentive Plan

The Company's 2010 Long-Term Incentive Plan ("2010 Plan") provides the Compensation Committee of the Board of Directors with the discretion to grant stock options, stock appreciation rights, restricted shares, restricted units, performance shares, or performance units. Vesting terms vary with each grant and may be subject to vesting upon a "change in control" of the Company. The total number of shares reserved for issuance under the 2010 Plan was 600,000 shares.

Options

The following table summarizes the Company's activities with respect to its stock options for the three months ended March 31, 2014 as follows:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2013	213,700	$ 5.42	7.84	$ 26
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Outstanding at March 31, 2014	213,700	$ 5.42	7.59	$ 27
Exercisable at March 31, 2014	129,200	$ 6.02	7.35	$ 10

The aggregate intrinsic value in the table above represents the total that would have been received by the option holders if all in-the-money options had been exercised on March 31, 2014.

As of March 31, 2014, the total unrecognized compensation cost related to stock option awards was approximately $0.2 million which is expected to be recognized over a weighted average period of 1.8 years.

The following table summarizes information about stock options outstanding and exercisable at March 31, 2014:

	Options Outstanding at March 31, 2014			Options Exercisable at March 31, 2014		
Range of option exercise price	Number of options	Weighted average remaining contractual life	Weighted average exercise price per option	Number of options	Weighted average remaining contractual life	Weighted average exercise price per option
$3.55 to 8.32	213,700	7.59	$ 5.42	129,200	7.35	$ 6.02

Restricted Stock Plans

The Company's 2005 Restricted Stock Plan (the "2005 Plan") provides for the grant of restricted stock awards. A total of 250,000 shares were reserved for issuance under the 2005 Plan, which expired September 1, 2013. These shares are subject to such restrictions on transferability and other restrictions, if any, as the Compensation Committee may impose. No shares were issued under this plan during the three months ended March 31, 2013.

In connection with the restricted stock granted to certain employees and non-employee directors, the Company accrues compensation expense based on the estimated number of shares expected to be issued utilizing the most current information available to the Company at the date of the financial statements. The Company estimates the fair value of restricted stock awards based upon the market price of the underlying common stock on the date of grant.

As of March 31, 2014, the total unrecognized compensation cost related to non-vested restricted stock awards was approximately $0.3 million which is expected to be recognized over a weighted average period of 1.8 years.

The following table summarizes restricted stock activity for the three months ended March 31, 2014:

	Number of Restricted Stock Shares	**Weighted Average Grant Price Fair Value**
Non-vested at December 31, 2013	129,500	$ 4.42
Granted	—	—
Shares vested	(30,667)	4.28
Shares forfeited	—	—
Non-vested at March 31, 2014	98,833	$ 4.46

11. Foreign Exchange Contracts

The Company's primary exposure to foreign currency fluctuations pertains to its subsidiaries in Canada and China. In certain instances the Company may enter into foreign exchange forward contracts to manage a portion of this risk. The Company has not designated its foreign exchange forward contracts as hedges.

The following table presents the gross fair value of derivative instruments, all of which are not designated as hedging instruments:

		Asset Derivatives	
(in thousands)	**Classification**	**March 31, 2014**	**December 31, 2013**
Foreign exchange forward contracts	Other current assets	$ 11,961	$ 10,934

		Liability Derivatives	
(in thousands)	**Classification**	**March 31, 2014**	**December 31, 2013**
Foreign exchange forward contracts	Other current liabilities	$ 12,000	$ 11,000

The above fair values results in an insignificant net liability at March 31, 2014 and December 31, 2013. All cash flows related to our foreign currency exchange contracts are classified as operating cash flows. We recognized in other income, the following realized and unrealized losses from foreign currency forward exchange contracts:

		Three Months Ended March 31,	
(in thousands)	**Classification**	**2014**	**2013**
Foreign exchange forward contracts	Other Income (Loss)	$ (348)	$ —

12. Commitments, Contingencies and Concentrations

Concentrations

The Company’s top ten customers accounted for approximately 45.0% of total consolidated net revenues for the three months ended March 31, 2014. Trade accounts receivable from these customers represented approximately 37.8% of net consolidated receivables at March 31, 2014. While the Company believes its relationships with such customers are stable, most arrangements are made by purchase order and are terminable at will by either party. A significant decrease or interruption in business from the Company’s significant customers could have a material adverse effect on the Company’s business, financial condition and results of operations. The Company could also be adversely affected by such factors as changes in foreign currency rates and weak economic and political conditions in each of the countries in which the Company sells its products.

Financial instruments that potentially expose the Company to a concentration of credit risk principally consist of accounts receivable. The Company sells product to a large number of customers in many different geographic regions. To minimize credit concentration risk, the Company performs ongoing credit evaluations of its customers’ financial condition.

Leases

The Company and its subsidiaries lease plant and office facilities, furniture, autos and equipment under operating leases expiring through 2023. These leases generally contain renewal options and the Company expects to renew or replace certain of these leases in the ordinary course of business.

The Company’s future minimum lease payments for operating leases are as follows:

		Payments due by period ($ in thousands)					
	Total	**Remainder 2014**	**2015**	**2016**	**2017**	**2018**	**Thereafter**
Operating leases	$4,097	$692	$568	$452	$402	$	All compensation plans not previously approved by security holders.

40

EQUITY COMPENSATION PLAN INFORMATION

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (#) (a)	Weighted average exercise price of outstanding options, warrants and rights ($) (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (#) (c)
Equity compensation plans approved by security holders	3,380,000	17.01	5,480,000
Equity compensation plans not approved by security holders	—	—	—
Total	3,380,000	17.01	5,480,000

Termination, Change in Control and Non-Competition/Non-Solicitation

The employment agreements for each of the Named Executive Officers provide for a severance payment upon a termination of employment in connection with a change-in-control of the Company. The employment agreements of Messrs. Rosenfeld, Dharia and Sinha also provide for severance payment if the executive terminates his employment for good reason in connection with a change-in-control event. The change-in-control severance payments may result in the application of the "golden parachute" provisions of Section 280G of the Code and, to the extent Section 280G applies, the Company may not deduct from its taxable income the severance payments made to the Named Executive Officer. Moreover, Section 4999 of the Code would impose a 20% excise tax on the Named Executive Officer receiving the severance payment. In the case of Mr. Schmertz and Ms. Varela, these severance payments in connection with a change-in-control, however, are reduced if the severance payment, when added to any other benefits triggered by a change-of-control, is determined to constitute an "excess parachute payment" under Sections 280G and 4999 of the Code, to the maximum amount that is deductible to the Company under Section 280G of the Code. In the case of Messrs. Rosenfeld, Dharia and Sinha, the executive's change-in-control severance payment will only be reduced to the maximum amount that is deductible to the Company under Section 280G of the Code if the reduction provides the Named Executive Officer with the best after-tax result; otherwise, the Named Executive officer will receive the full amount of the severance payment and other benefits triggered by the change-in-control and be liable for the 20% excise tax on the excess parachute payment in addition to all other applicable taxes and, in such case, the deduction by the Company of the portion of the severance payment constituting an excess parachute payment will be disallowed.

The Company's employment agreements with each of the Named Executive Officers also provide for severance payments to the executive if the Company terminates the executive's employment without cause, or, in the case of Mr. Rosenfeld and Mr. Sinha, if the Company gives him good reason to terminate employment.

Please see the section of this Proxy Statement captioned “Employment Arrangements” for a summary description of the Named Executive Officers’ employment agreements and such severance and change-in-control provisions. These benefits are described and quantified in the section of this Proxy Statement captioned “Potential Payments Upon Termination or Change-In-Control” below.

41

The Company believes that the severance payments and payments made upon change-in-control provisions in the employment agreements provide appropriate protection to the Company's executives, comparable to that available at peer companies, and, with regard to the enhanced severance following a change-in-control, protects the Company from losing key executives during a period when a change-in-control may be threatened or pending. These benefits are described and quantified in the section below captioned "Potential Payments Upon Termination or Change-In-Control."

Ms. Varela has agreed to a non-compete and non-solicitation restriction through the expiration date of her employment agreement, December 31, 2016, in the event of a voluntary termination or termination for cause. Messrs. Rosenfeld and Sinha have each agreed to a non-compete and non-solicitation restriction during the period of his employment and for a six-month period following the termination of his employment for cause or in the event of his resignation without good reason. Mr. Schmertz has agreed to a non-compete and non-solicitation restriction through December 31, 2015. Mr. Dharia does not have non-compete or non-solicitation provisions in his employment agreement.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL

The Company's employment agreements with the Named Executive Officers provide for payments to such individuals upon termination of employment or a change-in-control of the Company. Please see the section of this Proxy Statement captioned "Employment Arrangements." The amounts set forth in the table below shall be payable to the respective Named Executive Officer if such Named Executive Officer's employment is terminated under the various scenarios set forth below.

NAME AND PRINCIPAL POSITION	CASH PAYMENT		CONTINUATION OF MEDICAL / WELFARE BENEFITS (PRESENT VALUE)		ACCELERATION AND CONTINUATION OF EQUITY AWARD	REDUCTION OF BENEFITS UPON A CHANGE-IN-CONTROL (1)	TOTAL TERMINATION BENEFITS
	($)		($)		($)	($)	($)
TERMINATION DUE TO DEATH							
Edward R. Rosenfeld	607,754	(2)	6,255	(3)	—	—	614,009
Arvind Dharia	554,719	(4)	11,320	(3)	—	—	566,039
Awadhesh Sinha	600,000	(5)	11,320	(3)	—	—	611,320
Robert Schmertz	725,000	(6)	—		—	—	725,000
Amelia Newton Varela	—		—		—	—	—
TERMINATION DUE TO TOTAL DISABILITY							
Edward R. Rosenfeld	607,754	(2)	—		—	—	607,754
Arvind Dharia	554,719	(4)	—		—	—	554,719
Awadhesh Sinha	600,000	(5)	—		—	—	600,000
Robert Schmertz	725,000	(6)	—		—	—	725,000
Amelia Newton Varela	—		—		—	—	—

TERMINATION FOR CAUSE; RESIGNATION WITHOUT GOOD REASON									
Edward R. Rosenfeld	—		—		—		—	—	
Arvind Dharia	—		—		—		—	—	
Awadhesh Sinha	—		—		—		—	—	
Robert Schmertz	—		—		—		—	—	
Amelia Newton Varela	—		—		—		—	—	
TERMINATION OTHER THAN FOR CAUSE; RESIGNATION FOR GOOD REASON									
Edward R. Rosenfeld	1,245,896	(7)	—		—		—	1,245,896	
Arvind Dharia	554,719	(8)	98,834	(9)	—		—	653,553	
Awadhesh Sinha	1,891,500	(10)	—		—		—	1,891,500	
Robert Schmertz	725,000	(11)	—		—		—	725,000	
Amelia Newton Varela	1,500,000	(12)	—		—		—	1,500,000	
TERMINATION UPON A CHANGE-IN-CONTROL									
Edward R. Rosenfeld	5,806,015	(13)	—		8,424,848	(14)	(3,827,012)	10,403,851	(17)
Arvind Dharia	2,414,157	(15)	—		1,392,268	(14)	—	3,806,425	
Awadhesh Sinha	4,489,080	(16)	—		329,310	(14)	—	4,818,390	
Robert Schmertz	12,513,710	(18)	—		2,693,669	(14)	(3,429,301)	11,778,078	(17)
Amelia Newton Varela	9,438,758	(19)	—		4,007,320	(14)	(3,435,810)	10,010,268	(17)

(1) The employment agreements of two of the Named Executive Officers provide that severance payments in connection with a change-in-control are reduced if the severance payment, when added to any other benefits triggered by a change-of-control, is determined to constitute an “excess parachute payment” under Sections 280G and 4999 of the Code, to the maximum amount that is deductible to the Company under Section 280G of the Code. The employment agreements of the remaining Named Executive Officers indicate that the executive’s change-in-control severance payment will only be reduced to the maximum amount that is deductible to the Company under Section 280G of the Code if the reduction provides the Named Executive Officer with the best after-tax result; otherwise, the Named Executive officer will receive the full amount of the severance payment and other benefits triggered by the change-in-control and be liable for the 20% excise tax on the excess parachute payment in addition to all other applicable taxes and, in such case, the deduction by the Company of the portion of the severance payment constituting an excess parachute payment will be disallowed.

(2) Consists of Mr. Rosenfeld’s 2014 base salary of $607,754, which would be paid at regular intervals.

(3) Consists of medical benefits.

(4) Consists of Mr. Dharia's 2014 base salary of $554,719, which would be paid at regular intervals.

(5) Consists of Mr. Sinha's 2014 base salary of $600,000, which would be paid at regular intervals. For purposes of calculating this hypothetical payment, Mr. Sinha's January 10, 2014 employment agreement is deemed to be in effect as of December 31, 2013. The section of this Proxy Statement captioned "Employment Arrangements" contains a detailed description of the terms of this employment agreement.

(6) Consists of Mr. Schmertz's 2014 base salary of $725,000, which would be paid at regular intervals.

(7) Consists of the base salary ($607,754 for 2014 and $638,142 for 2015) that would have been paid to Mr. Rosenfeld during the remainder of the term of his employment until the expiration of his employment agreement on December 31, 2015. Mr. Rosenfeld would receive these payments at regular intervals.

(8) Consists of Mr. Dharia's 2013 base salary of $554,719 multiplied by the number of years (and fraction of years) remaining in the term of his employment agreement, which expires on December 31, 2014. Mr. Dharia would receive 50% of this payment immediately and the remaining 50% would be paid to him one year later (i.e., on December 31, 2014).

(9) Consists of one times the sum of Mr. Dharia's life insurance payment ($87,514 per year) plus medical benefits ($11,320 per year).

(10) Consists of the base salary ($600,000 for 2014, $630,000 for 2015 and $661,500 for 2016) that would have been paid to Mr. Sinha during the remainder of the term of his employment until the expiration of his employment agreement on December 31, 2016. Mr. Sinha would receive these payments at regular intervals. For purposes of calculating this hypothetical payment, Mr. Sinha's January 10, 2014 employment agreement is deemed to be in effect as of December 31, 2013. The section of this Proxy Statement captioned "Employment Arrangements" contains a detailed description of the terms of this employment agreement.

(11) Consists of an annual base salary of $725,000 that would have been paid to Mr. Schmertz during the remainder of the term of his employment until the expiration of his employment agreement on December 31, 2014. Mr. Schmertz would receive these payments at regular intervals.

(12) Consists of the base salary of $500,000 that would have been paid to Ms. Varela during the remainder of the term of her employment until the expiration of her employment agreement on December 31, 2016. Ms. Varela would receive these payments at regular intervals. For purposes of calculating this hypothetical payment, Ms. Varela's January 10, 2014 employment agreement is deemed to be in effect as of December 31, 2013. The section of this Proxy Statement captioned "Employment Arrangements" contains a detailed description of the terms of this employment agreement.

(13) Consists of three times the average total compensation Mr. Rosenfeld actually received for the preceding three calendar years, except that in lieu of the actual base salary component received during such period, there has been substituted the annual base salary to which Mr. Rosenfeld was entitled as of the date of termination or resignation. Upon a change-in-control, payments (or portions thereof) to Mr. Rosenfeld determined to constitute an "excess parachute payment" may be reduced to the maximum amount that would be tax deductible by the Company pursuant to Sections 280G of the Code. Upon a hypothetical December 31, 2013 change-in-control, this amount would have been reduced by $3,827,012 to reflect the maximum amount that would be tax deductible by the

Company pursuant to Section 280G of the Code. See the "Implications of Tax and Accounting Matters" section of "Compensation Discussion and Analysis" for a discussion of the applicability of Sections 280G and 4999 of the Code to change-in-control payments generally. See also the summary of Mr. Rosenfeld's employment agreement under "Employment Arrangements."

(14) The amount disclosed represents the total value of the restricted stock and stock options which would have received accelerated vesting upon a hypothetical change in control on December 31, 2013.

(15) Consists of three times the total compensation Mr. Dharia actually received for the preceding twelve calendar months, except that in lieu of the actual base salary component received during such period, there has been substituted the annual base salary to which Mr. Dharia was entitled as of the date of termination or resignation. Upon a change-in-control, payments (or portions thereof) to Mr. Dharia determined to constitute an "excess parachute payment" may be subject to reduction to the maximum amount that would be tax deductible by the Company pursuant to Sections 280G of the Code. Upon a hypothetical December 31, 2013 change-in-control, no payments to Mr. Dharia would have been subject to reduction. See the "Implications of Tax and Accounting Matters" section of "Compensation Discussion and Analysis" for a discussion of the applicability of Sections 280G and 4999 of the Code to change-in-control payments generally. See also the summary of Mr. Dharia's employment agreement under "Employment Arrangements."

43

(16) Consists of three times the sum of base compensation and certain benefits Mr. Sinha actually received for the preceding twelve calendar months, except that in lieu of the actual base salary component received during such period, there has been substituted the annual base salary to which Mr. Sinha was entitled as of the date of termination or resignation. Upon a change-in-control, payments (or portions thereof) to Mr. Sinha determined to constitute an "excess parachute payment" may be subject to reduction to the maximum amount that would be tax deductible by the Company pursuant to Sections 280G of the Code. Upon a hypothetical December 31, 2013 change-in-control, no payments to Mr. Sinha would have been subject to reduction. See the "Implications of Tax and Accounting Matters" section of "Compensation Discussion and Analysis" for a discussion of the applicability of Sections 280G and 4999 of the Code to change-in-control payments generally. See also the summary of Mr. Sinha's employment agreement under "Employment Arrangements." For purposes of calculating this hypothetical payment, Mr. Sinha's January 10, 2014 employment agreement is deemed to be in effect as of December 31, 2013.

(17) The total amount does not include the amount deducted pursuant to Section 280G of the Code.

(18) Consists of three times the average total compensation Mr. Schmertz actually received for the preceding three calendar years. Upon a hypothetical December 31, 2013 change-in-control, this amount would have been reduced by $3,429,301 to reflect the maximum amount that would be tax deductible by the Company pursuant to Section 280G of the Code. See the "Implications of Tax and Accounting Matters" section of "Compensation Discussion and Analysis" for a discussion of the applicability of Sections 280G and 4999 of the Code to change-in-control payments generally. See also the summary of Mr. Schmertz's employment agreement under "Employment Arrangements."

(19) Consists of three times the average total compensation Ms. Varela actually received for the preceding three calendar years. Upon a hypothetical December 31, 2013 change-in-control, this amount would have been reduced by $3,435,810 to reflect the maximum amount that would be tax deductible by the Company pursuant to Section 280G of the Code. See the "Implications of Tax and Accounting Matters" section of "Compensation Discussion and Analysis" for a discussion of the applicability of Sections 280G and 4999 of the Code to change-in-control payments generally. See also the summary of Ms. Varela's employment agreement under "Employment Arrangements." For purposes of calculating this hypothetical payment, Ms. Varela's January 10, 2014 employment agreement is deemed to be in effect as of December 31, 2013.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management, and based on the review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Submitted by the Compensation Committee of the Company's Board of Directors:

Peter Migliorini (Chairman)
Thomas H. Schwartz

44

PROPOSAL TWO:

RATIFICATION OF THE APPOINTMENT OF EISNERAMPER LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2014

The Audit Committee has appointed EisnerAmper LLP as the Company's independent registered public accounting firm to conduct the audit of the Company's books and records for the fiscal year ending December 31, 2014. EisnerAmper LLP also served as the Company's independent registered public accountants for the 2013 Fiscal Year.

Before making its determination on appointment, the Audit Committee carefully considers the qualifications and competence of candidates for the independent registered public accountants. For EisnerAmper LLP, this has included a review of its performance in prior years, its independence and processes for maintaining independence, the results of the most recent internal quality control review or Public Company Accounting Oversight Board inspection, the key members of the audit engagement team, the firm's approach to resolving significant accounting and auditing matters including consultation with the firm's national office, as well as its reputation for integrity and competence in the fields of accounting and auditing. Although ratification by stockholders is not required by the Company's organizational documents or other applicable law, the Audit Committee has determined that requesting ratification by stockholders of its appointment of EisnerAmper LLP as the Company's independent registered public accountants is a matter of good corporate practice. If stockholders do not ratify the selection, the Audit Committee will reconsider whether or not to retain EisnerAmper LLP, but may still retain the accounting firm. Even if the selection is ratified, the Audit Committee, in its discretion, may change the appointment at any time during the year if it determines that such a change would be in the best interest of the Company and its stockholders.

Representatives of EisnerAmper LLP are expected to be present at the Annual Meeting to respond to appropriate questions and to make a statement should they so desire.

Required Vote

The affirmative vote of the holders of a majority of the outstanding shares of Common Stock present or represented by proxy and entitled to vote at the Annual Meeting is required to ratify the Audit Committee's selection of EisnerAmper LLP.

Recommendation of the Board of Directors

The Board of Directors unanimously recommends a vote "FOR" the ratification of the appointment of EisnerAmper LLP as the Company's independent registered public accountants for the fiscal year ending December 31, 2014. Unless marked to the contrary, proxies received from stockholders will be voted in favor of ratifying the appointment of EisnerAmper LLP as the Company's independent registered public accountants for the fiscal year ending December 31, 2014.

Independent Registered Public Accounting Firm's Fees and Services

The aggregate fees billed to the Company by EisnerAmper LLP for professional services rendered for each of the past two years are set forth below:

	Year Ended December 31,	
	2013	2012
Audit Fees [(1)]	$ 728,000	$ 700,000
Audit-Related Fees [(2)]	25,000	25,000
Tax Fees [(3)]	91,000	46,850
All Other Fees [(4)]	41,500	148,465
Total	$ 885,500	$ 920,315

[(1)] Represents the aggregate fees and expenses billed for (a) the audit of the Company's annual financial statements, (b) the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q, (c) other statutory and regulatory filings or engagements and (d) the audit of the Company's internal controls over financial reporting.

[(2)] Represents the aggregate fees billed for audit-related fees related to assurance and related services. Includes, among others, the audit of the Company's employee benefit plans and other accounting related consultations.

[(3)] Represents the aggregate fees billed for tax compliance, tax advice and tax planning services. These professional services include assistance in the preparation of the Company's various federal, state and local tax returns, tax consultation and various amendments.

[(4)] Represents the aggregate fees billed (a) with respect to the 2013 Fiscal Year, for (i) services rendered in connection with the Company's acquisition of a business in Canada and (ii) out-of-pocket expenses incurred by EisnerAmper LLP in connection with services rendered to the Company and (b) with respect to the fiscal year ended December 31, 2012, for (i) due diligence services rendered in connection with two business acquisitions and (ii) out-of-pocket expenses incurred by EisnerAmper LLP in connection with services rendered to the Company.

Audit Committee's Pre-Approval Policies and Procedures

Consistent with SEC policies regarding auditor independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent registered public accountants. In recognition of this responsibility, the Audit Committee has established a policy to review and pre-approve all audit and permissible non-audit services provided by the independent registered public accountants. These services may include audit services, audit-related services, tax services and other services.

Prior to engagement of the independent auditor for next year's audit, the Audit Committee will pre-approve all auditing services and all permitted non-audit services (including the fees and terms thereof), except those excluded from requiring pre-approval based upon the de minimus exception set forth in Section 10A(i)(1)(B) of the Exchange Act.

The Audit Committee's pre-approval policies and procedures are as follows: (a) prior to each fiscal year, the Audit Committee pre-approves a schedule of estimated fees for proposed non-prohibited audit and non-audit services, and (b) actual amounts paid are monitored by financial management of the Company and reported to the Audit

Committee.

All work performed by EisnerAmper LLP as described above under the captions Audit Fees, Audit-Related Fees, Tax Fees and All Other Fees has been approved or pre-approved by the Audit Committee pursuant to the provisions of the Audit Committee's charter. The Audit Committee has considered and concluded that the provision of non-audit services is compatible with maintaining the independence of EisnerAmper LLP.

46

AUDIT COMMITTEE REPORT

The Audit Committee reviewed the Company's audited financial statements for the 2013 Fiscal Year and met with both management and representatives of EisnerAmper LLP, the Company's independent registered public accountants, to discuss such audited financial statements. Management and the Company's independent registered public accountants have represented to the Audit Committee that the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. The Audit Committee has received from and discussed with EisnerAmper LLP the written disclosures and the letter regarding EisnerAmper LLP's communications with the Audit Committee concerning independence as required by applicable requirements of the Public Company Accounting Oversight Board, and discussed with EisnerAmper LLP the independence of EisnerAmper LLP. The Audit Committee also discussed with EisnerAmper LLP any matters required to be discussed by Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T. Based on these reviews and discussions, the Audit Committee recommended to the Board that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the 2013 Fiscal Year.

Submitted by the Audit Committee of the Company's Board of Directors:

Richard P. Randall (Chairman)
Peter Migliorini
Ravi Sachdev

47

PROPOSAL THREE:

NON-BINDING ADVISORY VOTE ON EXECUTIVE COMPENSATION

Section 14A of the Exchange Act, as created by Section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), and the rules and regulations promulgated thereunder, require a publicly traded company to include a resolution in its proxy statement at least once every three years seeking stockholder approval, on an advisory or non-binding basis, of the compensation of the named executive officers as disclosed in such company's proxy statement pursuant to the compensation rules of the SEC. At our 2011 Annual Meeting of Stockholders, the Company's stockholders approved, on an advisory basis, the holding of an advisory vote to approve executive compensation (commonly known as a "say-on-pay" proposal) on an annual basis. Based on these results, the Board of Directors determined to hold its advisory vote to approve executive compensation annually until the next frequency vote, which is scheduled for the Company's 2017 Annual Meeting of Stockholders. Accordingly, we are providing stockholders with a non-binding advisory vote on the compensation of our Named Executive Officers.

As described in more detail in the Compensation Discussion and Analysis section, which begins on page 22 of this Proxy Statement, the overall objective of the Company's executive compensation programs and practices is to support delivery of sustained operating and financial performance results with the ultimate goal being to create and maximize value for our stockholders on a long-term basis. We believe that our executive compensation programs and practices serve the interests of our stockholders by enabling us to attract and retain an experienced and effective management team whose combined knowledge of our business and the footwear and accessories industries has proved extremely valuable in delivering results for our stockholders. The Compensation Committee and the Board of Directors believe that the Company's compensation programs and practices as articulated in the Compensation Discussion and Analysis section of this Proxy Statement effectively implement our philosophy of aligning compensation to stockholder interests and that the compensation received by our Named Executive Officers in the 2013 Fiscal Year reflects and supports such philosophy and goal and is commensurate with the performance and strategic position of the Company. We will continue to review and modify our executive compensation programs to address evolving best practices and changing regulatory requirements.

We encourage stockholders to read the Compensation Discussion and Analysis section of this Proxy Statement, as well as the Summary Compensation Table and other related compensation tables and narrative disclosure contained in this Proxy Statement, all of which describe and explain in detail the compensation of our Named Executive Officers in the 2013 Fiscal Year.

The following resolution is submitted for stockholder approval:

"**RESOLVED**, that the stockholders of Steven Madden, Ltd. (the 'Company') approve, on a non-binding advisory basis, the compensation paid to the Named Executive Officers of the Company as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the executive compensation as described in the section captioned 'Compensation Discussion and Analysis,' the Summary Compensation Table and related tabular disclosure and narrative discussion regarding compensation of Named Executive Officers under the caption 'Executive Compensation' contained in the Company's Proxy Statement dated April 10, 2014."

This vote is not intended to address any specific item of compensation, but rather the overall compensation of our Named Executive Officers and the compensation programs and practices described in this Proxy Statement. While this advisory vote on executive compensation, commonly referred to as a “say-on-pay” advisory vote, is required by Section 14A of the Exchange Act, it is not binding on our Board of Directors and may not be construed as overruling any decision by the Board of Directors or the Compensation Committee. However, we value the opinions of our stockholders. To the extent there is a significant vote against the compensation of the Named Executive Officers as disclosed in this Proxy Statement, the Board of Directors and the Compensation Committee will consider the outcome of the vote when considering future compensation arrangements and evaluate whether any actions are necessary to address the stockholders’ concerns.

48

Required Vote

Approval of this resolution requires the affirmative vote of a majority of the shares of Common Stock present or represented by proxy and entitled to vote at the Annual Meeting.

Recommendation of the Board of Directors

The Board of Directors unanimously recommends a vote “FOR” the resolution approving the overall compensation of the Named Executive Officers for the 2013 Fiscal Year.

OTHER MATTERS

At the date of this Proxy Statement, the Company has no knowledge of any business other than that described above that will be presented at the Annual Meeting. If any other business should properly come before the Annual Meeting in connection therewith, it is intended that the persons named in the accompanying proxy will have discretionary authority to vote the shares which they represent.

A copy of the applicable provisions of the Company’s By-Laws may be obtained by any stockholder, without charge, upon written request to the Secretary of the Company at the address set forth above.

WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE ANNUAL MEETING, PLEASE MARK, SIGN, DATE AND RETURN THE ACCOMPANYING PROXY CARD PROMPTLY. ALTERNATIVELY, YOU MAY VOTE YOUR SHARES BY TELEPHONE OR THROUGH THE INTERNET AS DESCRIBED ON THE ACCOMPANYING PROXY CARD. YOUR VOTE IS IMPORTANT. IF YOU ARE A STOCKHOLDER OF RECORD AND ATTEND THE ANNUAL MEETING AND WISH TO VOTE IN PERSON, YOU MAY WITHDRAW YOUR PROXY AT ANY TIME PRIOR TO THE VOTE.

	STEVEN MADDEN, LTD.	
April 10, 2014		
	By:	
		Arvind Dharia Secretary

49

STEVEN MADDEN, LTD.
ATTN: ARVIND DHARIA
52-16 BARNETT AVENUE
LONG ISLAND CITY, NY 11104

VOTE BY INTERNET - www.proxyvote.com
Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS
If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903
Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL
Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS
DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

	For All	Withhold All	For All Except	To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the number(s) of the nominee(s) on the line below.
The Board of Directors recommends you vote FOR the following:	o	o	o	
1. Election of Directors **Nominees**				

01 Edward R Rosenfeld 02 Rose Peabody Lynch 03 John L Madden 04 Peter
06 Migliorini 05 Richard P Randall
Ravi Sachdev 07 Thomas H Schwartz 08 Robert Smith

The Board of Directors recommends you vote FOR proposals 2 and 3.	**For**	**Against**	**Abstain**
2. TO RATIFY THE APPOINTMENT OF EISNERAMPER LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2014.	o	o	o

3.	TO APPROVE, BY NON-BINDING ADVISORY VOTE, THE EXECUTIVE COMPENSATION DESCRIBED IN THE STEVEN MADDEN, LTD PROXY STATEMENT.	o	o	o

NOTE: In their discretion, the proxies are authorized to vote upon such other business as may properly be presented at the meeting or any adjournments or postponements thereof.

	Yes	**No**
Please indicate if you plan to attend this meeting	o	o

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)	Date

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Notice & Proxy Statement, Annual Report with 10-K is/are available at www.proxyvote.com.

STEVEN MADDEN, LTD.
THIS PROXY IS BEING SOLICITED ON BEHALF OF
THE BOARD OF DIRECTORS

PLEASE CLEARLY INDICATE A RESPONSE BY CHECKING ONE OF THE BOXES NEXT TO EACH OF THE PROPOSALS

The undersigned stockholder(s) of Steven Madden, Ltd. (the "Company") hereby appoint(s) Edward R. Rosenfeld and Arvind Dharia, and each of them, as attorneys and proxies, each with power of substitution and revocation, to represent the undersigned at the Annual Meeting of Stockholders of the Company to be held at the Company's showroom located at 1370 Avenue of the Americas, 14th Floor, New York, New York at 10:00 a.m., local time, on May 23, 2014 and at any adjournments or postponements thereof, with authority to vote all shares of Common Stock of the Company held or owned by the undersigned on April 4, 2014, in accordance with the directions indicated herein.

THIS PROXY WILL BE VOTED AS SPECIFIED HEREIN; UNLESS OTHERWISE INDICATED, THIS PROXY WILL BE VOTED (1) FOR THE ELECTION OF THE EIGHT(8) NOMINEES NAMED IN ITEM 1, (2) FOR THE RATIFICATION OF THE APPOINTMENT OF EISNERAMPER LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR 2014 AND (3) FOR THE APPROVAL OF THE EXECUTIVE COMPENSATION DESCRIBED IN THE COMPANY'S PROXY STATEMENT. THIS PROXY WILL BE VOTED IN THE DISCRETION OF THE PROXIES ON ANY OTHER MATTER THAT MAY PROPERLY COME BEFORE THE MEETING.

Continued and to be signed on reverse side

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