

STEVEN MADDEN, LTD.  
Form 10-Q  
November 07, 2008

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

**FORM 10-Q**

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

For the quarterly period ended September 30, 2008

- ☐ 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)

Registrant's telephone number, including area code

**(718) 446-1800**

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 ☒ 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 definition of "large accelerated filer", "accelerated filer", "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

☐

Accelerated filer

☒

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Non-accelerated filer

☐

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 ☒

As of November 5, 2008, the latest practicable date, there were 17,870,442 shares of common stock, \$.0001 par value, outstanding.

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STEVEN MADDEN, LTD.  
FORM 10-Q  
QUARTERLY REPORT  
September 30, 2008

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**PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements****STEVEN MADDEN, LTD. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets**

(in thousands)

	September 30, 2008	December 31, 2007	September 30, 2007
	(unaudited)		(unaudited)
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 33,115	\$ 29,446	\$ 24,632
Accounts receivable, net of allowances of \$1,309, \$1,967 and \$2,603	8,308	8,351	6,810
Due from factor, net of allowances of \$9,912, \$13,479 and \$8,970	53,911	32,819	51,994
Note receivable - related party	3,309		3,000
Inventories	40,740	27,197	36,265
Marketable securities - available for sale	16,985	51,028	39,061
Prepaid expenses and other current assets	7,156	5,840	6,393
Prepaid taxes	3,022	4,819	9,270
Deferred taxes	9,450	9,355	7,528
Total current assets	175,996	168,855	184,953
Note receivable - related party		3,126	
Property and equipment, net	28,563	28,653	25,705
Deferred taxes	7,259	7,232	6,419
Deposits and other	2,290	3,202	3,276
Marketable securities - available for sale	6,569	29,383	15,487
Goodwill - net	16,942	15,922	11,269
Intangibles - net	8,677	10,148	10,639
Total Assets	\$ 246,296	\$ 266,521	\$ 257,748
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 21,196	\$ 24,827	\$ 24,354
Accrued expenses	15,387	16,757	14,115
Accrued incentive compensation	6,241	6,133	5,879
Total current liabilities	42,824	47,717	44,348
Deferred rent	4,608	3,470	3,425
Total Liabilities	47,432	51,187	47,773
Commitments, contingencies and other			
<b>STOCKHOLDERS' EQUITY</b>			

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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, 90,000 shares authorized, 26,123, 25,780 and 25,739 shares issued, 17,861, 20,118 and 20,077 outstanding			
	3	3	3
Additional paid-in capital	137,109	129,913	129,253
Retained earnings	190,037	169,263	164,551
Other comprehensive loss:			
Unrealized (loss) on marketable securities	(301)	(61)	(48)
Treasury stock 8,262, 5,662 and 5,662 shares at cost	(127,984)	(83,784)	(83,784)
Total Stockholder s Equity	198,864	215,334	209,975
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 246,296</b>	<b>\$ 266,521</b>	<b>\$ 257,748</b>

See accompanying notes to condensed consolidated financial statements - unaudited

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## STEVEN MADDEN, LTD. AND SUBSIDIARIES

## Condensed Consolidated Statements of Operations

(unaudited)

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net sales:				
Wholesale	\$ 97,343	\$ 85,998	\$ 252,329	\$ 246,913
Retail	30,750	27,397	85,620	81,392
	128,093	113,395	337,949	328,305
Cost of sales:				
Wholesale	62,006	54,906	161,184	159,104
Retail	13,108	11,671	38,034	34,769
	75,114	66,577	199,218	193,873
Gross profit:				
Wholesale	35,337	31,092	91,145	87,809
Retail	17,642	15,726	47,586	46,623
	52,979	46,818	138,731	134,432
Commission, royalty and licensing fee income net	4,497	4,335	11,056	15,450
Operating expenses	(39,770)	(38,352)	(117,097)	(103,922)
Income from operations	17,706	12,801	32,690	45,960
Interest and other income, net	248	671	1,142	2,384
Income before provision for income taxes	17,954	13,472	33,832	48,344
Provision for income taxes	6,866	2,533	13,058	17,354
Net income	\$ 11,088	\$ 10,939	\$ 20,774	\$ 30,990
Basic income per share	\$ 0.62	\$ 0.52	\$ 1.12	\$ 1.49
Diluted income per share	\$ 0.62	\$ 0.52	\$ 1.11	\$ 1.43
Basic weighted average common shares outstanding	17,763	20,863	18,478	20,832
Effect of dilutive securities options/restricted stock	223	356	197	775

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<b>Diluted weighted average common shares outstanding</b>	<b>17,986</b>	21,219	<b>18,675</b>	21,607
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*See accompanying notes to condensed consolidated financial statements - unaudited*

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## STEVEN MADDEN, LTD. AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows

(unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2008	2007
<b>Cash flows from operating activities:</b>		
Net income	\$ 20,774	\$ 30,990
Adjustments to reconcile net income to net cash provided by operating activities:		
Excess tax benefit from the exercise of options	(762)	(7,957)
Depreciation and amortization	6,824	5,842
Loss on disposal of fixed assets	1,075	600
Deferred taxes	(122)	514
Non-cash compensation	4,383	3,450
Provision for bad debts	(4,225)	(935)
Deferred rent expense	1,138	289
Realized loss on marketable securities	887	588
Changes in:		
Accounts receivable	701	(1,087)
Due from factor	(17,525)	(9,257)
Notes receivable related party	(183)	(3,000)
Inventories	(13,543)	(2,605)
Prepaid expenses, prepaid taxes, deposits and other assets	2,116	(973)
Accounts payable and other accrued expenses	(990)	7,259
Net cash provided by operating activities	548	23,718
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(6,285)	(7,894)
Purchase of marketable securities	(13,944)	(35,340)
Sale/redemption of marketable securities	69,660	70,910
Acquisition, net of cash acquired *	(4,923)	(8,983)
Net cash provided by investing activities	44,508	18,693
<b>Cash flows from financing activities:</b>		
Proceeds from options exercised	2,051	5,154
Tax benefit from exercise of options	762	7,957
Purchase of treasury stock	(44,200)	(50,094)
Net cash used in financing activities	(41,387)	(36,983)
<b>Net increase in cash and cash equivalents</b>	<b>3,669</b>	<b>5,428</b>
Cash and cash equivalents - beginning of period	29,446	19,204
<b>Cash and cash equivalents - end of period</b>	<b>\$ 33,115</b>	<b>\$ 24,632</b>



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\* Amounts for 2008 include \$3,903 which was accrued at December 31, 2007

*See accompanying notes to condensed consolidated financial statements - unaudited*

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**STEVEN MADDEN, LTD. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements - Unaudited**

**September 30, 2008**

**(\$ 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 the 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. The results of its operations for the three- and nine-month periods ended September 30, 2008 are not necessarily indicative of the operating results for the full year. It is suggested that these financial statements be read in conjunction with the financial statements and related disclosures for the year ended December 31, 2007 included in the Annual Report of Steven Madden, Ltd. on Form 10-K filed with the SEC on March 12, 2008.

**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. The Company provides reserves on trade accounts 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 key account executives and the Vice President of Wholesale Sales to estimate the amount of the anticipated customer allowance.

**NOTE C - 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 exercise options that were due to expire and retain the underlying Company stock, which he pledged to the Company as collateral. Mr. Madden executed a secured promissory note in favor of the Company that bears interest at an annual rate of 8% and was due on the earlier of the date Mr. Madden ceases to be employed by the Company or December 31, 2007. An amendment to the note dated December 19, 2007 extended the due date to March 31, 2009. As of September 30, 2008, \$309 of interest has accrued on the note and has been reflected on the Company's Condensed Consolidated Financial Statements. Further, pursuant to the note, Mr. Madden pledged, assigned and granted a first priority security interest in 510,000 of his shares of common stock of the Company as security for the performance of his obligations under the Note.

**Note D - Marketable Securities**

Marketable securities consist primarily of corporate and municipal bonds, U.S. treasury notes and asset-backed securities with maturities greater than three months and up to five 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). Amortization of premiums and discounts is included in interest income and is not material. The values of these securities may fluctuate as a result of changes in market interest rates and credit risk.

**STEVEN MADDEN, LTD. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements - Unaudited**

**September 30, 2008**

**(\$ in thousands except share and per share data)**

**Note D - Marketable Securities (continued)**

At December 31, 2007, the Company held \$37,325 in auction rate securities. The contractual maturities of the investments underlying the auction rate securities matured at various dates through 2046, however, all the Company's auction rate securities, or ARSs, had a reset period of 28 days. Subsequent to December 31, 2007 the Company reduced the amount of its ARSs via successful auctions to \$16,300, however, in February of 2008, the liquidity in the ARS market evaporated causing the ARSs to fail at auction, resulting in the Company continuing to hold these securities and the issuers paying interest at the maximum contractual rate. Accordingly, \$16,300 of the auction rate securities were classified as long term as of December 31, 2007. The lack of liquidity in the ARS market continued during the first quarter of 2008, and as a result, the Company recorded an unrealized loss in other comprehensive loss on its ARSs of \$230 as of March 31, 2008. Beginning in June of 2008, a market developed for certain ARSs based on the quality and the collateral of the underlying securities. During the months of June and July, the Company was able to sell \$16,225 of its ARSs at full face value thereby reducing its holdings in ARSs to \$75 as of September 30, 2008. Therefore, the ARS balance of \$75 as of September 30, 2008 has been classified as short term and the unrealized loss of \$230 provided for in the first quarter of this year was reversed in the second quarter of the year. As a result, the Company did not incur any losses with respect to its investments in ARSs.

**Note E - Inventories**

Inventories, which consist of finished goods on hand and in transit, are stated at the lower of cost (first-in, first-out method) or market.

**Note F - Tender Offer**

On March 25, 2008, the Company completed a tender offer to purchase 2,600,000 shares of the Company's common stock for treasury at a total cost of \$44,200 or \$17.00 per share. The 2,600,000 shares that were purchased represented approximately 13% of the total number of shares outstanding prior to the completion of the tender offer.

**Note G - Revenue Recognition**

The Company recognizes revenue on wholesale sales when products are shipped pursuant to its standard terms which are freight on board (FOB) warehouse or when products are delivered to the consolidators as per the terms of the customers' purchase order. Sales reductions for anticipated discounts, allowances and other deductions are recognized during the period when sales are recorded. Customers retain the right to replacement of the product for poor quality or improper or short shipments, which have historically been immaterial. Retail sales are recognized when the payment is received from customers and are recorded net of returns. The Company also generates commission income acting as a buying agent by arranging to manufacture private label shoes to the specifications of its clients. The Company's revenue includes partial recovery of its design, product and development costs for the services provided to certain suppliers in connection with the Company's private label business. Commission revenue and product and development cost recoveries are recognized as earned when title of the product transfers from the manufacturer to the customer and is reported on a net basis after deducting operating expenses.

The Company licenses its trademarks for use in connection with the manufacturing, marketing and sale of cold weather accessories, sunglasses, eyewear, outerwear, bedding and hosiery. 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 on the purchases of the Company's products. Licensing revenue is recognized on the basis of net sales reported by the licensees and international distributors, or the minimum guaranteed royalties, if higher. In substantially all of the Company's license agreements, the minimum guaranteed royalty is earned and payable on a quarterly basis.

**STEVEN MADDEN, LTD. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements - Unaudited**

**September 30, 2008**

**(\$ in thousands except share and per share data)**

**Note H Taxes Collected From Customers**

The Company accounts for certain taxes collected from its customers in accordance with the FASB's Emerging Issues Task Force 06-03, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" (EITF 06-03). EITF 06-03 allows companies to adopt a policy of presenting taxes in the income statement on either a gross basis (included in revenues and costs) or net basis (excluded from revenues). Taxes within the scope of EITF 06-03 would include taxes that are imposed on a revenue transaction between a seller and a customer, for example, sales taxes, use taxes, value-added taxes and some types of excise taxes. The Company has consistently recorded all taxes within the scope of EITF 06-03 on a net basis.

**Note I Sales Deductions**

The Company supports retailers' initiatives to maximize the sales of its products on the retail floor by subsidizing the co-op advertising programs of such retailers and providing them with inventory markdown allowances. Such expenses are reflected in the Condensed Consolidated Statement of Operations as deductions to sales. For the three- and nine-month periods ended September 30, 2008, the total deduction to sales for these expenses was \$10,378 and \$27,717, respectively, as compared to \$11,118 and \$30,799 for the comparable periods in 2007.

**Note J Cost of Sales**

All costs incurred to bring finished products to the Company's distribution center and, in the Retail Division, the costs to bring products to the Company's stores, are included in the cost of sales line on the Condensed Consolidated Statement of Operations. These include the cost of finished products, purchase commissions, letter of credit fees, brokerage fees, sample expenses, customs duties, inbound freight, royalty payments on licensed products, labels and product packaging. All warehouse and distribution costs related to the Wholesale Division and freight to customers, if any, are included in the operating expenses line item of the Company's Condensed Consolidated Statements of Operations. The Company's gross margins may not be comparable to other companies in the industry because some companies may include warehouse and distribution costs as a component of cost of sales, while other companies report on the same basis as the Company and include them in operating expenses.

**Note K - Net Income Per Share of Common Stock**

Basic income per share is based on the weighted average number of shares of common stock outstanding during the period. Diluted income per share reflects the potential dilution assuming shares of common stock were issued upon the exercise of outstanding options and the proceeds thereof were used to purchase outstanding shares of common stock. Diluted income per share also reflects the unvested and unissued shares promised to employees that have a dilutive effect. In addition, diluted earnings per share include the amount of unrecognized share-based compensation costs attributed to future services and the amount of tax benefits, if any, that would be credited to Additional Paid In Capital assuming the exercise of options. For both the three- and nine-month periods ended September 30, 2008, no stock options have been excluded from the calculation, compared to 300,000 stock options that were excluded from the calculation for the same periods of last year because inclusion of such shares would be anti-dilutive.

## STEVEN MADDEN, LTD. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements - Unaudited

September 30, 2008

(\$ in thousands except share and per share data)

## Note L - Stock-Based Compensation

In March 2006, the Board of Directors approved the Steven Madden, Ltd. 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 shareholders approved the Plan on May 26, 2006. The number of shares that may be issued or used under the Plan cannot exceed 1,200,000 shares. 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 to 1,550,000. The following table summarizes the number of Common Stock shares authorized for use in the Plan, the amount of stock-based awards issued (net of expired or cancelled) and the amount of Common Stock available for the grant of stock-based awards under the Plan:

Common Stock authorized	1,550,000
Stock-based awards granted net of expired or cancelled	893,000
Common Stock available for grant of stock-based awards as of September 30, 2008	657,000

Total equity-based compensation for the three and nine months ended September 30 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Restricted stock	\$ 1,000	\$ 1,036	\$ 4,123	\$ 3,262
Stock options	146	125	260	188
Total	\$ 1,146	\$ 1,161	\$ 4,383	\$ 3,450

On March 24, 2008, the Chief Executive Officer and Chairman of the Board of Directors resigned from his positions. For the purposes of determining any payments to which such former executive was entitled following his resignation, it was mutually agreed to treat his resignation as a termination without Cause, as defined in his employment agreement. Pursuant to an agreement with the Company, 42,500 shares of restricted stock that were due to vest in varying amounts over four years vested on the date of termination. Accordingly, the balance of unamortized stock-based compensation related to the former executive's restricted stock of \$921 was included as a one-time charge in operating expenses during the quarter ended March 31, 2008.

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

*Stock Options*

Cash proceeds, tax benefits and intrinsic values related to total stock options exercised during both the three- and nine-month periods ended September 30, 2008 and 2007 are as follows:

Three Months Ended September 30,		Nine Months Ended September 30,	
2008	2007	2008	2007

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Proceeds from stock options exercised	\$	1,972	\$	110	\$	2,051	\$	5,154
Tax benefit related to stock options exercised		693		(130)		762		7,957
Intrinsic value of stock options exercised		2,225		865		2,362		19,906

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## STEVEN MADDEN, LTD. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements - Unaudited

September 30, 2008

(\$ in thousands except share and per share data)

## Note L - Stock-Based Compensation (continued)

During the three and nine months ended September 30, 2008, 15,000 and 20,000 options vested with a fair value of \$87 and \$117, respectively. No options vested during the three and nine months ended September 30, 2007. As of September 30, 2008, there were 300,000 unvested options with a total of \$1,704 of unrecognized compensation cost and an average vesting period of 4.0 years. As of September 30, 2007, there were 300,000 unvested options with a total of \$1,315 of unrecognized compensation cost and an average vesting period of 1.6 years. In April of 2008, 100,000 options were granted to the Company's Creative and Design Chief.

The Company estimates the fair value of options granted using the Black-Scholes option-pricing model, 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 stock. The risk free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. With the exception of a special dividend paid in November of 2005 and 2006, the Company historically has not paid dividends and thus the expected dividend rate is assumed to be zero. The following weighted average assumptions were used for stock options granted:

	Nine months ended September 30, 2008	2007
Expected volatility	42.5% to 42.9%	36.8%
Risk-free interest rate	2.30% to 3.12%	4.73%
Expected life (in years)	3.1 to 3.9	3.1
Expected dividend yield	None	None
Weighted average fair value	\$6.57	\$5.01

Activity relating to stock options granted under the Company's plans and outside the plans during the nine months ended September 30, 2008 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2008	538,000	\$ 12.45		
Granted	315,000	18.61		
Exercised	(171,000)	11.95		
Cancelled/Forfeited				
Outstanding at September 30, 2008	682,000	\$ 15.42	7.0	\$ 6,378
Exercisable at September 30, 2008	382,000	\$ 12.91	5.1	\$ 4,532

## STEVEN MADDEN, LTD. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements - Unaudited

September 30, 2008

(\$ in thousands except share and per share data)

## Note L - Stock-Based Compensation (continued)

*Restricted Stock*

The following table summarizes restricted stock activity during the nine months ended September 30, 2008 and 2007:

	2008		2007	
	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	507,000	\$ 30.90	391,000	\$ 32.07
Granted	16,000	19.33	225,000	30.02
Vested	(172,000)	31.52	(108,000)	32.24
Forfeited	(5,000)	34.05	(7,000)	34.05
Non-vested at September 30	346,000	\$ 29.99	501,000	\$ 31.09

As of September 30, 2008, there was \$8,113 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 2.4 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.

## Note M Acquisitions

*Compo Enhancements*

On May 16, 2007, the Company acquired all of the outstanding membership interests of privately held Compo Enhancements, LLC ( "Compo" ), a Connecticut limited liability company. Compo was founded in late 2005 as a third party provider of e-commerce solutions for the Company. The acquisition enables the Company to fully integrate its e-commerce business into the Company's Retail Division and operate its online business internally. The acquisition, which was accounted for using the purchase method of accounting as required by SFAS Statement No.141, "Business Combinations", was completed for a consideration of \$8,982, inclusive of transaction costs, subject to adjustments which include certain earn-out provisions based on the Company's financial performance through 2012. In December 2007, the founder and Chief Executive Officer of Compo, reached an agreement with the Company to surrender his rights under the earn-out agreement in exchange for a cash payment which, combined with other purchase adjustments, increased the total consideration to \$9,679. The total purchase price has been allocated as follows:

Current assets	\$ 50
Property and equipment	143
Intangible assets	4,744
Goodwill	5,501
Liabilities assumed	(759)

Net assets acquired	\$ 9,679
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## STEVEN MADDEN, LTD. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements - Unaudited

September 30, 2008

(\$ in thousands except share and per share data)

## Note M Acquisitions (continued)

The results of operations of Compo have been included in the Company's Condensed Consolidated Statements of Operations from the date of the acquisition. Unaudited pro forma information related to this acquisition is not included, as the impact of this transaction is not material to the Company's consolidated results. In connection with the acquisition, the former President of Compo was appointed President of the Company. His contract, which was to expire on December 31, 2009, provided for an annual salary of \$600 and an annual bonus based on EBIT. In addition, he was granted 150,000 stock options with an exercise price of \$45 and an additional 150,000 stock options with an exercise price of \$50, all of which were to vest over three years. In December of 2007, an amendment to the President's employment contract shortened the expiration date to June 30, 2008, eliminated the bonus provision of the contract and cancelled all of the stock options. He resigned his position with the Company effective as of April 4, 2008. The Company retained the former President to act as a consultant to the Company in connection with the Company's on-line and internet business operations for the period beginning April 19, 2008 and ended June 30, 2008. In consideration of such services, the former President received \$141.

*Daniel M. Friedman*

On February 7, 2006, the Company acquired all of the equity interest of privately held Daniel M. Friedman and Associates, Inc. and D.M.F. International (collectively, Daniel M. Friedman). Founded in 1995, Daniel M. Friedman designs, sources and markets name brand fashion handbags and accessories. The acquisition was completed for consideration of \$18,710, including transaction costs. In addition, the purchase agreement includes certain earn-out provisions based on financial performance through 2010. On April 10, 2007, an amendment to the agreement shortened the earn-out period by one year through December 31, 2008 and advanced the earn-out payments from 2008 to 2007. On December 31, 2007, a preliminary earn-out provision for 2007 of \$3,956 was charged to goodwill which increased the total acquisition cost to \$22,666. On March 31, 2008, the 2007 earn-out provision was finalized at \$4,923 resulting in an additional \$1,020 charge to goodwill which increased the total acquisition cost to \$23,686.

The Daniel M. Friedman acquisition was accounted for using the purchase method of accounting as required by SFAS Statement No. 141, Business Combinations. Accordingly, the assets and liabilities of Daniel M. Friedman were adjusted to their fair values, and the excess of the purchase price over the fair value of the assets acquired, 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. The total purchase price has been allocated as follows:

Current assets	\$ 9,772
Property, plant and equipment	289
Deposits	62
Intangible assets	8,400
Goodwill	9,894
Liabilities assumed	(4,731)

Net assets acquired	\$ 23,686
---------------------	-----------

The purchase price and related allocation may be revised as a result of adjustments made to the purchase price pursuant to the earn-out provisions.

Pursuant to the acquisition, the Company has a note receivable from the former owner and namesake of Daniel M. Friedman in the amount of \$1,250. The note, which has an interest rate of 5%, is due and payable on the same day that the final earn-out payment is due. The note allows the maker to offset the principal and interest due on the note against any earn-out monies that might be due to him. The note is included in the Prepaid expenses and other current assets category on the Company's Condensed Consolidated Balance Sheets.

**STEVEN MADDEN, LTD. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements - Unaudited****September 30, 2008**

(\$ in thousands except share and per share data)

**Note N Goodwill and Intangible Assets**

The following is a summary of the carrying amount of goodwill by segment for the nine months ended September 30, 2008:

	<b>Wholesale</b>			<b>Net Carrying</b>
	<b>Women's</b>	<b>Accessories</b>	<b>Retail</b>	<b>Amount</b>
Balance at January 1, 2008	\$ 1,547	\$ 8,874	\$ 5,501	\$ 15,922
Additional purchase price - Daniel M. Friedman	0	1,020	0	1,020
Balance at September 30, 2008	\$ 1,547	\$ 9,894	\$ 5,501	\$ 16,942

The following table details identifiable intangible assets as of September 30, 2008:

	<b>Estimated lives</b>	<b>Cost basis</b>	<b>Accumulated Amortization</b>	<b>Net carrying amount</b>
Trade name	6 years	\$ 200	\$ 90	\$ 110
Customer relationships	10 years	6,400	1,222	5,178
License agreements	3-6 years	5,600	2,865	2,735
Non-compete agreement	5 years	930	284	646
Other	3 years	14	6	8
		\$ 13,144	\$ 4,467	\$ 8,677

The estimated future amortization expense of purchased intangibles as of September 30, 2008 is as follows:

2008 (remaining three months)	\$ 491
2009	1,859
2010	1,856
2011	1,381
2012	642
Thereafter	2,448
	\$ 8,677

**Note O Comprehensive Income**

Comprehensive income for the three and nine month periods ended September 30, 2008, after considering other comprehensive loss, including unrealized loss on marketable securities of \$68 and \$240, was \$11,020 and \$20,534, respectively. For the comparable periods ended September 30, 2007, after considering other comprehensive gain on marketable securities of \$209 and \$593, comprehensive income was \$11,148 and \$31,583, respectively.



**STEVEN MADDEN, LTD. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements - Unaudited****September 30, 2008****(\$ in thousands except share and per share data)****Note P Income Taxes**

A recent growth in the Company's New York based income, combined with revisions in state and local tax law prompted the Company to re-evaluate its tax filing strategies. As a result of such changes, the Company has determined that electing to file both of its New York State and New York City tax returns on a combined basis would minimize the tax costs of the Company. The Company was able to amend New York State and New York City returns for the years 2003 through 2005 resulting in an additional one-time tax benefit recognized in the third quarter of 2007. As a result of this one-time benefit in 2007, the Company's expected effective tax rate was reduced to 35.9% in the first nine months of 2007 compared to 38.6% in the same period of this year.

The Company is currently under examination by the Internal Revenue Service and by New York State for the years 2003 through 2006. The ultimate outcome of the audits cannot be determined currently.

**Note Q Accounting Standards Adopted In Fiscal 2008**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 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. On February 12, 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, Effective Date of FASB Statement No. 157. The FSP amended FASB Statement No. 157 to delay the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually), to fiscal years beginning after November 15, 2008. The Company adopted SFAS No. 157 for financial assets and liabilities in the first quarter of 2008. The Statement 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.

The Company's financial assets subject to fair value measurements as of September 30, 2008 are as follows:

			Fair Value Measurements Using Fair Value Hierarchy		
		Fair value	Level 1	Level 2	Level 3
Cash and cash equivalents		\$ 33,115	\$ 33,115		
Current marketable securities	available for sale	16,985	16,985		
Long-term marketable securities	available for sale	6,569	6,569		
Total		\$ 56,669	\$ 56,669		

On September 30, 2008, the Company held \$75 in ARSs, which has been included in current marketable securities.

**STEVEN MADDEN, LTD. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements - Unaudited****September 30, 2008****(\$ in thousands except share and per share data)****NOTE Q ACCOUNTING STANDARDS ADOPTED IN FISCAL 2008 (CONTINUED)**

The reconciliation of the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows:

	<b>Investments in Auction Rate Securities</b>
Balance at January 1, 2008	\$
Transfers to level 3	16,300
Sales/redemptions	(16,225)
Unrealized losses recorded to other comprehensive income	
Losses deemed to be other than temporary recorded in earnings	
Transfers to level 1	(75)
Balance at September 30, 2008	\$

As of September 30, 2008, the Company does not have any financial liabilities. No gains or losses resulting from the fair value measurement of financial assets were included in the Company's earnings. The adoption of SFAS No. 157 has not impacted the Company's results of operations and financial position.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that chose different measurement attributes for similar assets and liabilities. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has elected not to measure any eligible items at fair value. Accordingly, the adoption of SFAS No. 159 has not impacted the Company's results of operations and financial position.

**NOTE R RECENTLY ISSUED ACCOUNTING STANDARDS**

In December of 2007, the FASB issued Statement of Financial Accounting Standards No. 141R, "Business Combinations" (SFAS No. 141R), which replaces FASB Statement No. 141. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. This statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company has not yet determined the impact, if any, that the implementation of SFAS No. 141R will have on its results of operations or financial condition.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51" (SFAS No. 160). SFAS No. 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the Consolidated Financial Statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS No. 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the non-controlling equity investment on the deconsolidation date. SFAS No. 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company has

not yet determined the impact, if any, that the implementation of SFAS No. 160 will have on its results of operations or financial condition.

**STEVEN MADDEN, LTD. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements - Unaudited**

**September 30, 2008**

**(\$ in thousands except share and per share data)**

**NOTE R RECENTLY ISSUED ACCOUNTING STANDARDS (CONTINUED)**

In April 2008, the FASB issued FSP No. 142-3, Determination of the Useful Life of Intangible Assets ( FSP 142-3 ). FSP 142-3 amends the factors to be considered in developing renewal or extension assumptions used to determine the useful life of intangible assets under SFAS No. 142, Goodwill and other Intangible Assets. Its intent is to improve the consistency between the useful life of an intangible asset and the period of expected cash flows used to measure its fair value. This FSP is effective prospectively for intangible assets acquired or renewed after January 1, 2009. The Company does not expect it to have a material impact on its Consolidated Financial Statements.

In June 2008, the FASB issued FASB Staff Position ( FSP ) Determining Whether Instruments Granted In Share-Based Payment Transactions are Participating Securities ( FSP 03-6-1). FSP 03-6-1 clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends of dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of earnings per share under the two-class method described in SFAS No. 128, Earnings Per Share. This FSP is effective for the Company on January 1, 2009 and requires all presented prior-period earnings per share data to be adjusted retrospectively. The Company is still in the process of evaluating the impact FSP 03-6-1 will have on its Consolidated Financial Statements. For additional information about the Company's share-based payment awards, refer to Note 11 of the Notes to Consolidated Financial Statement its Form 10-K.

In October 2008, the FASB issued FSP No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active ( FSP 157-3 ). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157- 3 was effective upon issuance for all financial assets and liabilities recognized or disclosed at fair value in our Condensed Consolidated Financial Statements on a recurring basis (at least annually). The adoption of FSP 157-3 did not have a material impact on our Condensed Consolidated Financial Statements.

**Note S - Commitments, Contingencies and Other**

**[1] Legal proceedings:**

- (a) On or about August 7, 2008, the Company was named in a class action lawsuit filed in the San Diego County Superior Court, California. The Complaint, which seeks unspecified damages, alleges violation of the Song-Beverly Credit Card Act, which prohibits retailers from accumulating personal information on customers who complete their purchase with a credit card. Specifically, it is alleged that the Company collected zip codes on its credit card transactions in California. Management believes that it is not currently possible to assess whether or not there will be any impact at all from this action, or if there is, what effect the ultimate resolution of the matter might have on the results of operation, financial position or cash flows.
- (b) On August 10, 2005, the U.S. Customs Department ( Customs ) issued a report that asserts that certain commissions which the Company treated as buying agents commissions (which are non-dutiable) should be treated as selling agents commissions and hence are dutiable. In the report, Customs estimates that the Company had underpaid duties during the calendar years of 1998 through 2004 in the amount of \$1,051. As of June 30, 2007, based on discussions with legal counsel, the Company believed that the liability in this case, including interest, was not likely to exceed \$1,500.

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**STEVEN MADDEN, LTD. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements - Unaudited**

**September 30, 2008**

**(\$ in thousands except share and per share data)**

**NOTE S - Commitments, Contingencies and Other (continued)**

Accordingly, as of December 31, 2006 the Company recorded a reserve of \$1,500. In September of 2007, Customs notified the Company that it had finalized its assessment of the underpaid duties to be \$1,400. Pursuant to this assessment, the Company, with the advice of legal counsel, has re-evaluated the liability in the case, including interest and penalties, and believes that it is not likely to exceed \$2,700. The Company increased its reserve by \$1,208 in the third quarter of 2007. Such reserve is subject to change to reflect the status of this matter.

- (c) 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.

**[2] Employment agreements:**

- (a) Effective April 7, 2008, the Company entered into an employment agreement with Edward Rosenfeld pursuant to which Mr. Rosenfeld will serve as the Company's Chief Executive Officer. The agreement, which expires on December 31, 2009, provides for an annual salary of \$400. In addition, Mr. Rosenfeld received 40,000 stock options that will vest annually over five years.
- (b) Effective October 1, 2008, the Company amended its employment agreement with Awadhesh Sinha, the Company's Chief Operating Officer. The agreement provides for an annual salary of \$540 through December 31, 2010, with successive one-year automatic renewal terms thereafter. The agreement also provides for an annual incentive bonus and requires the Company to accrue deferred cash compensation equal to from 7.5% to 25% of the annual salary.

**Note T Operating Segment Information**

The Company's reportable segments are primarily based on methods used to distribute its products. The wholesale segment, through sales to department and specialty stores, and the retail segment, through the operation of retail stores and the website, derive revenue from sales of branded women's, men's and kid's footwear and accessories. In addition, the wholesale segment has a licensing program that extends the Steve Madden, Steven by Steve Madden and Stevies brands to accessories and ready-to-wear apparel. The first cost segment represents activities of a subsidiary which earns commissions for serving as a buying agent to mass-market merchandisers, shoe chains, other off-price retailers and, through special distribution agreements, to international retailers with respect to their procurement of private label shoes.



## STEVEN MADDEN, LTD. AND SUBSIDIARIES

**Notes to Condensed Consolidated Financial Statements - Unaudited**  
**September 30, 2008**  
(\$ in thousands except share and per share data)

	Wholesale Segments			Total Wholesale	Retail	First Cost	Consolidated
	Women s	Men s	Accessories				
<b>Quarter ended, September 30, 2008:</b>							
Net sales to external customers	\$ 68,166	\$ 10,784	\$ 18,393	\$ 97,343	\$ 30,750		\$ 128,093
Gross profit	25,243	4,036	6,058	35,337	17,642		52,979
Commissions, royalty and licensing fees - net	396			396		\$ 4,101	4,497
Income (loss) from operations	10,975	820	2,485	14,280	(675)	4,101	17,706
Segment assets	\$ 108,428	\$ 23,842	\$ 29,849	\$ 162,119	\$ 50,389	\$ 33,788	\$ 246,296
Capital expenditures				\$ 415	\$ 2,204	\$	\$ 2,619

**September 30, 2007:**

Net sales to external customers	\$ 58,004	\$ 15,203	\$ 12,791	\$ 85,998	\$ 27,397		\$ 113,395
Gross profit	21,039	5,936	4,117	31,092	15,726		46,818
Commissions, royalty and licensing fees - net	771			771		\$ 3,564	4,335
Income (loss) from operations	7,475	2,375	821	10,671	(1,434)	3,564	12,801
Segment assets	\$ 135,059	\$ 21,594	\$ 23,582	\$ 180,235	\$ 51,120	\$ 26,393	\$ 257,748
Capital expenditures				\$ 1,459	\$ 1,885	\$	\$ 3,344

	Wholesale Segments			Total Wholesale	Retail	First Cost	Consolidated
	Women s	Men s	Accessories				
<b>Nine months ended, September 30, 2008:</b>							
Net sales to external customers	\$ 174,697	\$ 30,116	\$ 47,516	\$ 252,329	\$ 85,620		\$ 337,949
Gross profit	63,342	11,655	16,148	91,145	47,586		138,731
Commissions, royalty and licensing fees - net	2,115			2,115		\$ 8,941	11,056
Income (loss) from operations	22,746	2,522	5,475	30,743	(6,994)	8,941	32,690
Segment assets	108,428	\$ 23,842	\$ 29,849	\$ 162,119	\$ 50,389	\$ 33,788	\$ 246,296
Capital expenditures				\$ 1,964	\$ 4,321	\$	\$ 6,285

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**September 30,  
2007:**

Net sales to external customers	\$	168,101	\$	39,260	\$	39,552	\$	246,913	\$	81,392		\$	328,305	
Gross profit		60,262		15,589		11,958		87,809		46,623			134,432	
Commissions, royalty and licensing fees net		2,872						2,872			\$	12,578	15,450	
Income from operations		25,405		5,516		2,844		33,765		(383)		12,578	45,960	
Segment assets	\$	135,059	\$	21,594	\$	23,582	\$	180,235	\$	51,120	\$	26,393	\$	257,748
Capital expenditures							\$	2,685	\$	5,209	\$		\$	7,894

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

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The following discussion of our financial condition and results of operations should be read in conjunction with the unaudited Financial Statements and Notes thereto appearing elsewhere in this document.

This Quarterly Report contains 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 these 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 expressions are 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 which 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, 2007. 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 and earnings per share)**

Steven Madden, Ltd. and its subsidiaries designs, sources, markets and retails fashion-forward footwear for women, men and children. In addition, we design, source, market and retail name brand and private label fashion accessories, such as handbags and belts, through our Daniel M. Friedman Division. We distribute products through department and specialty stores, our retail stores, our e-commerce website throughout the United States and through special distribution arrangements in Canada, Europe, Central and South America, Australia and Asia. Our product line includes a broad range of updated styles which are designed to establish or capitalize on market trends, complemented by core products. We have established a reputation for our creative designs, popular styles and quality products at accessible price points.

Despite the challenging economic environment during the third quarter of 2008, our consolidated net sales increased 13% over the same period of last year. Consolidated net sales for the quarter ended September 30, 2008 were \$128,093 as compared to \$113,395 in the same quarter of the prior year. The increase in net sales was fueled by a 91% increase in net sales in the Madden Girl Division as well as double-digit net sales increases in our accessories, Womens, Steven and Retail Divisions. Gross margin in the third quarter of 2008 remained unchanged from the 41% achieved in the same period last year. Net income increased to \$11,088 in the third quarter of 2008 from \$10,939 in the same quarter of last year. Diluted EPS for the third quarter of 2008 was \$0.62 per share on 17,986,000 diluted weighted average shares outstanding compared to \$0.52 per share on 21,219,000 diluted weighted average shares outstanding in the third quarter of last year.

In our retail division, same store sales (sales of those stores, including the e-commerce website, that were in operation throughout the third quarters of 2008 and 2007) increased 7.8%. As of September 30, 2008, we had 99 stores in operation, compared to 100 stores last year. During the twelve months ended September 30, 2008, sales per square foot declined to \$644 compared to sales per square foot of \$669 achieved in the same period of 2007.

We have determined that electing to file each of our New York State and New York City tax returns on a combined basis would minimize the tax cost to us. Last year we filed amended New York State and New York City returns on a combined basis for the years 2003 through 2005 resulting in an additional one-time tax benefit recognized in the third quarter of 2007. As a result of this one-time benefit in 2007, our expected effective tax rate was reduced to 18.8% in the third quarter of 2007 compared to 38.2% in the third quarter of this year.

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We continued to expand our brand portfolio by entering into three new license agreements during the third quarter. These new licenses, which include Fabulosity, I.e.i and Elizabeth and James, have positioned us to market merchandise across a broader retail spectrum.

Our annualized inventory turnover increased to 8.1 times in the third quarter of 2008 from 7.8 in the third quarter of 2007. Our accounts receivable average collection days increased to 53 days in the third quarter of 2008 compared to 51 days in the third quarter of the previous year.

On March 25, 2008, we completed a tender offer to purchase 2,600,000 shares of our common stock for treasury at a total cost of \$44,200 or \$17.00 per share. As of September 30, 2008, we had \$56,669 in cash, cash equivalents and marketable securities, no short or long-term debt, and total stockholders' equity of \$198,864. Working capital decreased to \$133,172 as of September 30, 2008, compared to \$140,605 on September 30, 2007 primarily as a result of the aforementioned tender offer.

The following tables set forth information on operations for the periods indicated:

### Selected Financial Information Three Months Ended September 30 (\$ in thousands)

2008			2007			
<b><u>CONSOLIDATED:</u></b>						
Net sales	\$	128,093	100%	\$	113,395	100%
Cost of sales		75,114	59		66,577	59
Gross profit		52,979	41		46,818	41
Other operating income	net of expenses	4,497	4		4,335	4
Operating expenses		39,770	31		38,352	34
Income from operations		17,706	14		12,801	11
Interest and other income, net		248	0		671	1
Income before income taxes		17,954	14		13,472	12
Net income		11,088	9		10,939	10

By Segment:

#### **WHOLESALE DIVISION:**

Net sales	\$	97,343	100%	\$	85,998	100%
Cost of sales		62,006	64		54,906	64
Gross profit		35,337	36		31,092	36
Other operating income		396	1		771	1
Operating expenses		21,453	22		21,192	25
Income from operations		14,280	15		10,671	12

#### **RETAIL DIVISION:**

Net sales	\$	30,750	100%	\$	27,397	100%
Cost of sales		13,108	43		11,671	43
Gross profit		17,642	57		15,726	57
Operating expenses		18,317	59		17,160	62
Loss from operations		(675)	(2)		(1,434)	(5)
Number of stores		99			100	

#### **FIRST COST DIVISION:**

Other commission income - net of expenses	\$	4,101	100%	\$	3,564	100%
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**Selected Financial Information**  
**Nine Months Ended**  
**September 30**  
**(\$ in thousands)**

2008

2007

**CONSOLIDATED:**

Net sales	\$	337,949	100%	\$	328,305	100%
Cost of sales		199,218	59		193,873	59
Gross profit		138,731	41		134,432	41
Other operating income - net of expenses		11,056	3		15,450	5
Operating expenses		117,097	34		103,922	32
Income from operations		32,690	10		45,960	14
Interest and other income net		1,142	0		2,384	1
Income before income taxes		33,832	10		48,344	15
Net income		20,774	6		30,990	9

By Segment:

**WHOLESALE DIVISION:**

Net sales	\$	252,329	100%	\$	246,913	100%
Cost of sales		161,184	64		159,104	64
Gross profit		91,145	36		87,809	36
Other operating income		2,115	1		2,872	1
Operating expenses		62,517	25		56,916	23
Income from operations		30,743	12		33,765	14

**RETAIL DIVISION:**

Net sales	\$	85,620	100%	\$	81,392	100%
Cost of sales		38,034	44		34,769	43
Gross profit		47,586	56		46,623	57
Operating expenses		54,580	64		47,006	57
Loss from operations		(6,994)	(8)		(383)	0
Number of stores		99			100	

**FIRST COST DIVISION:**

Other commission income - net of expenses	\$	8,941	100%	\$	12,578	100%
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**RESULTS OF OPERATIONS**

(\$ in thousands)

**Three Months Ended September 30, 2008 vs. Three Months Ended September 30, 2007****Consolidated:**

Net sales for the three-months ended September 30, 2008 increased by 13% to \$128,093 from \$113,395 for the comparable period of 2007. Gross margin in the third quarter of 2008 remained unchanged from the third quarter of 2007 at 41%. Operating expenses increased in the third quarter of this year to \$39,770 from \$38,352 in the same period last year. Commission and licensing fee income was \$4,497 in the third quarter of 2008 compared to \$4,335 in the third quarter of 2007. Income from operations increased to \$17,706 in the third quarter of this year from \$12,801 in the same period last year. Last year we filed amended New York State and New York City returns on a combined basis for the years 2003 through 2005 resulting in an additional one-time tax benefit recognized in the third quarter of 2007. As a result of this one-time benefit in 2007, our expected effective tax rate was reduced to 18.8% in the third quarter of 2007 compared to 38.2% in the third quarter of this year. Net income increased to \$11,088 in the third quarter of this year compared to \$10,939 in the same period last year. The increase in income was primarily due to the increase in net sales partially offset by the higher effective tax rate.

**Wholesale Division:**

Net sales from the Wholesale Division accounted for \$97,343 or 76%, and \$85,998 or 76% of our total net sales for the third quarter of 2008 and 2007, respectively. The increase in net sales was the result of double-digit net sales growth in the Madden Girl, Daniel Friedman, Steven and Womens Divisions. In the Madden Girl Division, a 91% increase in net sales was driven by a deeper market penetration and a strong product performance at retail. A 44% increase in net sales in the Daniel Friedman Division was due to the strong performance of Betsey Johnson handbags and net sales increases in Steve Madden and Steven handbags. A significant reduction in sales allowances resulted in a 15% increase in net sales in our Steven Division. Net Sales increased 14% in our Womens division due to the robust sales of several of our boot styles at retail. In addition, our new Steve Madden's Fix Division, which began shipping product during the fourth quarter of 2007, contributed net sales of \$694. These net sales increases were partially offset by lower sales in the Madden Mens and the Stevies divisions caused by the challenging economic environment.

Gross profit margin remained unchanged at 36% in both the third quarters of 2008 and 2007. In the third quarter of 2008, operating expenses increased slightly to \$21,453 from \$21,192 in the third quarter last year. As a percentage of sales, operating expenses decreased to 22% in the third quarter of 2008 compared to 25% in the same quarter of 2007. Income from operations for the Wholesale Division increased to \$14,280 for the three-month period ended September 30, 2008 compared to \$10,671 for the same period of the prior year.

**Retail Division:**

In the third quarter of 2008, net sales from the Retail Division accounted for \$30,750 or 24% of our total net sales compared to \$27,397 or 24% in the same period last year. We opened six new stores and closed seven under-performing stores during the twelve months ended September 30, 2008. As a result, we had 99 retail stores as of September 30, 2008 compared to 100 stores as of September 30, 2007. The 99 stores in operation on September 30, 2008, include 93 under the Steve Madden brand, five under the Steven brand and one e-commerce website. Comparable store sales (sales of those stores, including the e-commerce website, that were open throughout the third quarters of 2008 and 2007) increased 7.8% in the third quarter of this year primarily due to improved inventory allocation and the strong performance of boots, booties and sandals. The gross margin in the Retail Division remained unchanged at 57% in both the third quarters of 2008 and 2007. In the third quarter of 2008, operating expenses increased to \$18,317 from \$17,160 in the third quarter last year. This increase is due to the higher operating costs associated with the five free standing street stores opened during the period ended September 30, 2008 when compared with the lower operating costs of the seven mall locations closed during the same period. As a percentage of sales, operating expenses decreased to 59% in the third quarter of 2008 from 62% in the third quarter of last year. Loss from operations for the Retail Division was \$675 in the third quarter of this year compared to a loss from operations of \$1,434 for the same period in 2007.

**First Cost Division:**

The First Cost Division generated income from operations of \$4,101 for the three-month period ended September 30, 2008, compared to \$3,564 for the comparable period of 2007. The increase was due to the growth in our international business.

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### Nine Months Ended September 30, 2008 vs. Nine Months Ended September 30, 2007

#### **Consolidated:**

Total net sales for the nine-month period ended September 30, 2008 increased by 3% to \$337,949 from \$328,305 for the comparable period of 2007. Net sales in the Retail Division increased 5% and net sales in the Wholesale Division increased by 2%. During the nine months ended September 30, 2008, gross margin remained unchanged from the same period in 2007 at 41%. Operating expenses increased in the first nine months of this year to \$117,097 from \$103,922 in the same period last year. \$4,921 of this increase is due to the charges related to the resignation of our former Chief Executive Officer and Chairman of the Board in March of this year. Additional expenses associated with our Compo business acquired in the second quarter of last year and our new Steve Madden's Fix Division which began shipping product in the fourth quarter of last year also contributed to the increase in operating expenses. The additional stores in operation during the first half of this year (which ranged from a net of five additional stores on January 1, 2008 to a net of two additional stores on June 30, 2008) resulted in an increase in payroll, rent and depreciation expenses. Commission and licensing fee income was \$11,056 in the first nine months of 2008 compared to \$15,450 in the first nine months of 2007. The decrease was due to the decision of one of our large private label customers to source product directly, and by other private label customers scaling back their orders in response to the soft retail environment. Income from operations was \$32,690 in the first nine months of this year compared to \$45,960 in the same period last year. Our effective tax rate increased to 38.6% in the first nine months of 2008 compared to 35.9% in the same period last year due to our filing of amended New York State and New York City returns on a combined basis for the years 2003 through 2005 that resulted in a one-time tax benefit recognized in the third quarter of 2007. Net income decreased to \$20,774 in the first nine months of this year compared to \$30,990 in the same period last year. The decrease in income was primarily due to the increase in operating expenses and the reduction in net commission and licensing fee income.

#### **Wholesale Division:**

Net sales from the Wholesale Division accounted for \$252,329 or 75%, and \$246,913 or 75% of our total net sales for the first nine months of 2008 and 2007, respectively. The increase in sales was primarily driven by a significant sales growth in two of our wholesale divisions. In the Madden Girl Division, a 64% increase in net sales was the result of a deeper market penetration and a strong product performance at retail. A 20% increase in net sales in the Daniel Friedman Division was due to the strong performance of Betsey Johnson handbags and net sales increases in Steve Madden and Steven handbags. In addition, our Steven Division achieved a 5% increase in net sales due to a significant decrease in markdowns and allowances. Finally, our new Madden Fix Division, which began shipping product during the fourth quarter of 2007, contributed net sales of \$2,052 during the nine months ended September 30, 2008. These net sales increases were partially offset by net sales decreases in the Mens, Candie's and Stevies Divisions. These net sales decreases are primarily the result of the challenging economic environment.

Gross profit margin increased to 36.1% in the first nine months of this year from 35.6% in the same period last year, primarily due to a decrease in allowances. In the first nine months of 2008, operating expenses increased to \$62,517 from \$56,916 in the same period of 2007. The increase is primarily due to the \$4,921 of the charges related to the resignation of our former Chief Executive Officer and Chairman of the Board in March of this year. Income from operations for the Wholesale Division decreased to \$30,743 for the nine-month period ended September 30, 2008 compared to \$33,765 for the same period of 2007, primarily due to the increase in operating expenses.

#### **Retail Division:**

In the first nine months of 2008 net sales from the Retail Division accounted for \$85,620 or 25% of our total net sales compared to \$81,392 or 25% in the same period last year. We opened six new stores and closed seven under-performing stores during the twelve months ended September 30, 2008. As a result, we had 99 retail stores as of September 30, 2008 compared to 100 stores as of September 30, 2007. The 99 stores in operation on September 30, 2008, include 93 under the Steve Madden brand, five under the Steven brand and one e-commerce website. Comparable store sales (sales of those stores, including the e-commerce website, that were open throughout the first nine months of 2008 and 2007) increased 0.4% in the first nine months of this year. The gross margin in the Retail Division decreased to 55.6% in the nine months ended September 30, 2008 from 57.3% in the first nine months of 2007 primarily due to an increase in promotional activity reflective of the challenging economic environment. During the nine months ended September 30, 2008, operating expenses increased to \$54,580 from \$47,006 in the same period of last year. Several factors contributed to the increase of operating expenses during the nine months ended September 30, 2008. The additional stores in operation during the first half of this year (which ranged from a net of five additional stores on January 1, 2008 to a net of two additional stores on June 30, 2008) resulted in an increase in payroll, rent and depreciation expenses. Five of the stores opened this year are freestanding street stores which have higher operating costs than the mall stores that were closed during the year. Incremental costs associated with our Compo business that was acquired in the middle of the second quarter of last year also contributed to the increase in operating expenses. In addition, a non-cash write-off of unamortized assets associated with the closing of five stores resulted in an increase in operating expenses. Loss from operations for the Retail Division was \$6,994 in the first nine months of this year compared to a loss from operations of \$383 for the same period in 2007.

**First Cost Division:**

The First Cost Division generated income from operations of \$8,941 for the nine-month period ended September 30, 2008, compared to \$12,578 for the comparable period of 2007. The decrease was due to the decision of one of our large private label customers to source product directly and by other private label customers scaling back their orders in response to the soft retail environment. The decrease was partially offset by an increase in our international business.

**LIQUIDITY AND CAPITAL RESOURCES**

**(\$ in thousands)**

We had working capital of \$133,172 at September 30, 2008 compared to \$121,138 at December 31, 2007. The increase is primarily due to an increase in due from factor caused by an increase in sales in the third quarter, an increase in inventories required to fulfill the increase in sales orders for the month of October and a decrease of accounts payable and accrued expenses. These increases were partially offset by the completion of our tender offer in which we repurchased 2,600,000 shares of our common stock at a total cost of \$44,200.

Under the terms of a factoring agreement with GMAC, we are eligible to borrow 80% against our receivables at an interest rate equal to the lower of the prime rate less 0.875% or the 30-day London Interbank Offered Rate plus 1.375%. This agreement, which has no specific expiration date and can be terminated by either party with 60 days written notice after June 30, 2009, provides us with a \$50 million credit facility with a \$25 million sub-limit on the aggregate face amount of letters of credit with some other stipulations. We had no outstanding borrowings as of September 30, 2008 and September 30, 2007.

At December 31, 2007, we held \$37,325 in auction rate securities. The contractual maturities of the investments underlying the auction rate securities matured at various dates through 2046, however, all our auction rate securities, or ARSs, had a reset period of 28 days. Subsequent to December 31, 2007 we reduced the amount of its ARSs via successful auctions to \$16,300, however, in February of 2008, the liquidity in the ARS market evaporated causing the ARSs to fail at auction, resulting in our continuing to hold these securities and the issuers paying interest at the maximum contractual rate. Accordingly, \$16,300 of the auction rate securities were classified as long term as of December 31, 2007. The lack of liquidity in the ARS market continued during the first quarter of 2008, and as a result, we recorded an unrealized loss in other comprehensive loss on our ARSs of \$230 as of March 31, 2008. Beginning in June of 2008, a market developed for certain ARSs based on the quality and the collateral of the underlying securities. During the months of June and July, we were able to sell \$16,225 of our ARSs at full face value thereby reducing our holdings in ARSs to \$75 as of September 30, 2008. Therefore, the ARS balance of \$75 as of September 30, 2008 has been classified as short term and the unrealized loss of \$230 provided for in the first quarter of this year was reversed in the second quarter of the year. As a result, we did not incur any losses with respect to our investments in ARSs.

Management believes that based upon our current financial position and available cash and marketable securities, we will meet all of our financial commitments and operating needs for at least the next twelve months.

**OPERATING ACTIVITIES**

**(\$ in thousands)**

During the nine-month period ended September 30, 2008, net cash provided by operating activities was \$548. The primary source of cash was the net income for the nine months ended September 30, 2008. An additional source of cash was provided by the decrease in prepaid expenses, deposits and other assets of \$2,116. The primary uses of cash were an increase in due from factor of \$17,525, an increase in inventory of \$13,543 and a decrease in accounts payable and other accrued expenses of \$990.

**INVESTING ACTIVITIES**

**(\$ in thousands)**

During the nine-month period ended September 30, 2008, we invested \$13,944 in marketable securities and received \$69,660 from the maturities and sales of securities. We also invested \$4,923 in additional acquisition costs for Daniel Friedman. Additionally, we made capital expenditures of \$6,285, principally for the two new stores opened during the period, the construction of a new stores scheduled to open in the third quarter of 2008, the remodeling of three existing stores, leasehold improvements to corporate office space and for upgrades to our computer systems.



**FINANCING ACTIVITIES**

(\$ in thousands)

During the nine-month period ended September 30, 2008, we completed a Tender Offer to purchase 2,600,000 shares of our common stock for treasury at a total cost of \$44,200 or \$17.00 per share. We also received \$2,051 in cash and realized a tax benefit of \$762 in connection with the exercise of stock options.

**CONTRACTUAL OBLIGATIONS**

(\$ in thousands)

Our contractual obligations as of September 30, 2008 were as follows:

Contractual Obligations	Total	Payment due by period			
		Remainder of 2008	2009-2010	2011-2012	2013 and after
Operating lease obligations	\$ 119,694	\$ 4,201	\$ 33,650	\$ 31,077	\$ 50,766
Purchase obligations	51,619	51,619	0	0	0
Other long-term liabilities (future minimum royalty payments)	5,715	55	3,464	2,196	0
<b>Total</b>	<b>\$ 177,028</b>	<b>\$ 55,875</b>	<b>\$ 37,114</b>	<b>\$ 33,273</b>	<b>\$ 50,766</b>

At September 30, 2008, we had un-negotiated open letters of credit for the purchase of inventory of approximately \$4,076.

We have an employment agreement with Steven Madden, our founder and Creative and Design Chief, which provides for an annual base salary of \$600 subject to certain specified adjustments through June 30, 2015. The agreement also provides for annual bonuses based on EBITDA, revenue of any new business and royalty income over \$2 million, plus an equity grant and a non-accountable expense allowance.

On February 7, 2006, we acquired all of the equity interest of Daniel M. Friedman. The acquisition was completed for consideration of \$23,686, including transaction costs. In addition, the purchase agreement includes certain earn-out provisions based on financial performance through 2008.

We have employment agreements with certain executive officers, which provide for the payment of compensation aggregating approximately \$2,235 in 2008, \$2,420 in 2009 and \$940 in 2010. In addition, some of the employment agreements provide for a discretionary bonus and some provide for incentive compensation based on various performance criteria as well as other benefits including stock options. Our Chief Operating Officer is entitled to deferred compensation calculated as a percentage of his base salary.

Approximately ninety-nine percent (99%) of our products are produced at overseas locations, the majority of which are located in China, with a small percentage located in Mexico, Brazil, Spain, Italy and India. We have not entered into any long-term manufacturing or supply contracts with any of these foreign companies. We believe that a sufficient number of alternative sources exist outside of the United States for the manufacture of its products. We currently make approximately 99% of our purchases in U.S. dollars.

## INFLATION

We do not believe that the inflation experienced over the last few years in the United States, where we primarily compete, has had a significant effect on sales or profitability. Historically, we have minimized the impact of product cost increases by improving operating efficiencies, changing suppliers and increasing prices. However, no assurance can be given that we will be able to offset such inflationary cost increases in the future.

## CRITICAL ACCOUNTING POLICIES AND THE USE OF ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. Estimates by their nature are based on judgments and available information. Our estimates are made based upon historical factors, current circumstances and the experience and judgment of management. Assumptions and estimates are evaluated on an ongoing basis and we may employ outside experts to assist in evaluations. Therefore, actual results could materially differ from those estimates under different assumptions and conditions. Management believes the following critical accounting estimates are more significantly affected by judgments and estimates used in the preparation of our condensed consolidated financial statements: allowance for bad debts, returns, and customer chargebacks; inventory reserves; valuation of intangible assets; litigation reserves and cost of sales.

*Allowances for bad debts, returns and customer chargebacks.* We provide reserves against our trade accounts receivables for future customer chargebacks, co-op advertising allowances, discounts, returns and other miscellaneous deductions that relate to the current period. The reserve against our non-factored trade receivables also includes estimated losses that may result from customers' inability to pay. The amount of the reserve for bad debts, returns, discounts and compliance chargebacks are determined by analyzing aged receivables, current economic conditions, the prevailing retail environment and historical dilution levels for customers. We evaluate anticipated customer markdowns and advertising chargebacks by reviewing several performance indicators for our major customers. These performance indicators (which include inventory levels at the retail floors, sell through rates and gross margin levels) are analyzed by key account executives and the Vice President of Wholesale Sales to estimate the amount of the anticipated customer allowance. Failure to correctly estimate the amount of the reserve could materially impact our results of operations and financial position.

*Inventory reserves.* Inventories are stated at lower of cost or market, on a first-in, first-out basis. We review inventory on a regular basis for excess and slow moving inventory. The review is based on an analysis of inventory on hand, prior sales, and expected net realizable value through future sales. The analysis includes a review of inventory quantities on hand at period-end in relation to year-to-date sales and projections for sales in the foreseeable future as well as subsequent sales. We consider quantities on hand in excess of estimated future sales to be at risk for market impairment. The net realizable value, or market value, is determined based on the estimate of sales prices of such inventory through off-price or discount store channels. The likelihood of any material inventory write-down is dependent primarily on the expectation of future consumer demand for our product. A misinterpretation or misunderstanding of future consumer demand for our product, the economy, or other failure to estimate correctly, in addition to abnormal weather patterns, could result in inventory valuation changes, either favorably or unfavorably, compared to the valuation determined to be appropriate as of the balance sheet date.

*Valuation of intangible assets.* SFAS No. 142, "Goodwill and Other Intangible Assets", requires that goodwill and intangible assets with indefinite lives no longer be amortized, but rather be tested for impairment at least annually. This pronouncement also requires that intangible assets with finite lives be amortized over their respective lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144 "Accounting for Impairment or Disposal of Long-lived Assets". In accordance with SFAS No. 144, long-lived assets, such as property, equipment, leasehold improvements and goodwill subject to amortization, are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

*Litigation reserves.* Estimated amounts for litigation claims that are probable and can be reasonably estimated are recorded as liabilities in our consolidated financial statements. The likelihood of a material change in these estimated reserves would be dependent on new claims as they may arise and the favorable or unfavorable events of a particular litigation. As additional information becomes available, management will assess the potential liability related to the pending litigation and revise their estimates. Such revisions in management's estimates of a contingent liability could materially impact our results of operation and financial position.

*Cost of sales.* All costs incurred to bring finished products to our distribution center and, in the Retail Division, the costs to bring products to our stores, are included in the cost of sales line item on our Consolidated Statement of Operations. These include the cost of finished products, purchase commissions, letter of credit fees, brokerage fees, material and labor and related items, sample expenses, custom duty, inbound freight, royalty payments on licensed products, labels and product packaging. All warehouse and distribution costs are included in the operating expenses line item of our Consolidated Statements of Operations. We classify shipping costs to customers, if any, as operating expense. Our gross profit margins may not be comparable to other companies in the industry because some companies may include warehouse and distribution as a component of cost of sales, while other companies report on the same basis as we do and include them in operating expenses.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**(\$ in thousands)**

We do not engage in the trading of market risk sensitive instruments in the normal course of business. Our financing arrangements are subject to variable interest rates primarily based on LIBOR and the prime rate. An analysis of our credit agreements with GMAC can be found in Liquidity and Capital Resources section under Part I, Item 2 of this quarterly report.

As of September 30, 2008, we held marketable securities valued at \$23,554, which consist primarily of corporate and municipal bonds, U.S. treasury notes, certificates of deposit and asset-backed securities that have various maturities through 2010, as well as marketable equity securities. These investments are subject to interest rate risk and will decrease in value if market interest rates increase. We have the ability to hold these investments until maturity. In addition, any decline in interest rates would be expected to reduce our interest income.

At December 31, 2007, we held \$37,325 in auction rate securities. The contractual maturities of the investments underlying the auction rate securities matured at various dates through 2046, however, all our auction rate securities, or ARSs, had a reset period of 28 days. Subsequent to December 31, 2007 we reduced the amount of our ARSs via successful auctions to \$16,300, however, in February of 2008, the liquidity in the ARS market evaporated causing the ARSs to fail at auction, resulting in our continuing to hold these securities and the issuers paying interest at the maximum contractual rate. Accordingly, \$16,300 of the auction rate securities were classified as long term as of December 31, 2007. The lack of liquidity in the ARS market continued during the first quarter of 2008, and as a result, we recorded an unrealized loss in other comprehensive loss on its ARSs of \$230 as of March 31, 2008. Beginning in June of 2008, a market developed for certain ARSs based on the quality and the collateral of the underlying securities. During the months of June and July, we were able to sell \$16,225 of our ARSs at full face value thereby reducing our holdings in ARSs to \$75 as of September 30, 2008. Therefore, the ARS balance of \$75 as of September 30, 2008 has been classified as short term and the unrealized loss of \$230 provided for in the first quarter of this year was reversed in the second quarter of the year. As a result, we did not incur any losses with respect to our investments in ARSs.

### **ITEM 4. CONTROLS AND PROCEDURES**

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were, as of the end of the fiscal quarter covered by this quarterly report, effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

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As required by Rule 13a-15(d) under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated our internal controls over financial reporting to determine whether any changes occurred during the quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this report.

### **Part II. OTHER INFORMATION**

#### **ITEM 1. LEGAL PROCEEDINGS**

(\$ in thousands)

Certain legal proceedings in which we are involved are discussed in Note S to the consolidated financial statements and Part I, Item 3 included in the our Annual Report on Form 10-K for the year ended December 31, 2007. The following discussion is limited to recent developments concerning certain of our legal proceedings and should be read in conjunction with our earlier SEC reports. Unless otherwise indicated, all proceedings discussed in those earlier reports remain outstanding.

On or about August 7, 2008, we were named in a class action lawsuit filed in the San Diego County Superior Court, California. The Compliant, which seeks unspecified damages, alleges violation of the Song-Beverly Credit Card Act, which prohibits retailers from accumulating personal information on customers who complete their purchase with a credit card. Specifically, it is alleged that we collected zip codes on our credit card transactions in California. Management believes that it is not currently possible to asses whether or not there will be any impact at all from this action, or if there is, what effect the ultimate resolution of the matter might have on the results of operation, financial position or cash flows.

We have 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 our 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.

#### **ITEM 1A. RISK FACTORS**

The risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 have not materially changed.

#### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS:**

There were no unregistered sales of equity securities and we did not repurchase any of its common stock during the quarter ended September 30, 2008.

#### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

#### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

#### **ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

- 3.1 Certificate of Incorporation of Steven Madden, Ltd. (incorporated by reference to Exhibit 1 to Steven Madden, Ltd. s Current Report on Form 8-K, dated November 23, 1998, Securities and Exchange Commission File Number 000-23702, Film Number 98757800).
- 3.2 Amended & Restated By-Laws of Steven Madden, Ltd. (incorporated by reference to Exhibit 99.1 to Steven Madden, Ltd. s Current Report on Form 8-K, dated March 28, 2008).
- 4.1 Specimen Certificate for shares of Common Stock (incorporated by reference to Exhibit 4.01 to Steven Madden, Ltd. s Registration Statement on Form SB-2/A, dated September 29, 1993).
- 4.2 Rights Agreement between Steven Madden, Ltd. and American Stock Transfer and Trust Company (incorporated by reference to Exhibit 4.1 to Steven Madden, Ltd. s Current Report on Form 8-K dated November 16, 2001, SEC File Number 000-23702, Film Number 1794721).
- 31.1 Certification of Chairman & Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chairman & Chief Executive Officer pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: November 7, 2008

STEVEN MADDEN, LTD.

By: /s/ EDWARD R. ROSENFELD

Edward R. Rosenfeld  
Chairman and Chief Executive Officer

By: /s/ ARVIND DHARIA

Arvind Dharia  
Chief Financial Officer

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<u>Exhibit No.</u>	<u>Description</u>
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