STEVEN MADDEN, LTD.
Form 10-Q
November 09, 2007

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

FORM 10-Q

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

For the quarterly period ended September 30, 2007

[ ] 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 (for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ]

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

As of November 6, 2007, the latest practicable date, there were 20,086,316

shares of common stock, $.0001 par value, outstanding.

STEVEN MADDEN, LTD.
FORM 10-Q
QUARTERLY REPORT
September 30, 2007

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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,

	2007
	(unaudited)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 24,632
Accounts receivable, net of allowances of $2,603, $1,009 and $2,681	6,810
Due from factor, net of allowances of $8,970, $11,499 and $11,355	51,994
Note receivable - related party	3,000
Inventories	36,265
Marketable securities - available for sale	39,061
Prepaid expenses and other current assets	6,393
Prepaid taxes	9,270
Deferred taxes	7,528
Total current assets	184,953
Property and equipment, net	25,705
Deferred taxes	6,419
Deposits and other	3,276
Marketable securities - available for sale	15,487
Goodwill - net	11,269
Intangibles - net	10,639
Total Assets	$ 257,748
LIABILITIES	
Current liabilities:	
Accounts payable	$ 24,354
Accrued expenses	14,115
Accrued incentive compensation	5,879
Total current liabilities	44,348
Deferred rent	3,425
Total Liabilities	47,773
Commitments, contingencies and other	
STOCKHOLDERS' EQUITY	
Preferred stock - $.0001 par value, 5,000 shares authorized; none issued; Series A Junior Participating preferred stock - $.0001 par value, 60 shares authorized; none issued	
Common stock - $.0001 par value, 90,000 shares authorized, 25,739, 24,806 and 24,721 shares issued, 20,077, 21,106 and 21,021 outstanding	3
Additional paid-in capital	129,253
Retained earnings	164,551
Other comprehensive loss:	
Unrealized (loss) on marketable securities	(48)
Treasury stock - 5,662, 3,700 and 3,700 shares at cost	(83,784)
Total Stockholder's Equity	209,975

Total Liabilities and Stockholders' Equity	$ 257,748

See accompanying notes to condensed consolidated financial statements - unaudited

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations
(unaudited)
(in thousands, except per share data)

	Three Months Ended September 30,		Nine M Sept
	2007	2006	2007
Net sales:			
Wholesale	$ 85,998	$ 91,751	$ 246,913
Retail	27,397	31,489	81,392
	113,395	123,240	328,305
Cost of sales:			
Wholesale	54,906	57,020	159,104
Retail	11,671	15,197	34,769
	66,577	72,217	193,873
Gross profit:			
Wholesale	31,092	34,731	87,809
Retail	15,726	16,292	46,623
	46,818	51,023	134,432
Commission and licensing fee income - net	4,335	3,850	15,450
Operating expenses	(38,352)	(32,999)	(103,922
Income from operations	12,801	21,874	45,960
Interest and other income, net	671	715	2,384
Income before provision for income taxes	13,472	22,589	48,344
Provision for income taxes	2,533	9,942	17,354
Net income	$ 10,939	$ 12,647	$ 30,990
Basic income per share	$ 0.52	$ 0.61	$ 1.49
Diluted income per share	$ 0.52	$ 0.57	$ 1.43

Basic weighted average common shares outstanding	20,863	20,880	20,832
Effect of dilutive securities - options/restricted stock	356	1,256	775
Diluted weighted average common shares outstanding	21,219	22,136	21,607

See accompanying notes to condensed consolidated financial statements - unaudited

Condensed Consolidated Statements of Cash Flows
(unaudited) (in thousands)

	Ni
	2007
Cash flows from operating activities:	
Net income	$ 30
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	5
Loss on disposal of fixed assets	
Deferred taxes	
Non-cash compensation	3
Provision for bad debts	
Deferred rent expense	
Realized loss on marketable securities	
Changes in:	
Accounts receivable	(1
Due from factor	(9
Notes receivable - related party	(3
Inventories	(2
Prepaid expenses, prepaid taxes, deposits and other assets	(8
Accounts payable and other accrued expenses	7
Net cash provided by operating activities	23
Cash flows from investing activities:	
Purchase of property and equipment	(7
Purchase of marketable securities	(35
Sale/redemption of marketable securities	70
Acquisition, net of cash acquired	(8
Net cash provided by (used in) investing activities	18
Cash flows from financing activities:	
Proceeds from options exercised	5
Tax benefit from exercise of options	7
Purchase of treasury stock	(50
Net cash provided by (used in) financing activities	(36

Net increase in cash and cash equivalents	5
Cash and cash equivalents - beginning of period	19
Cash and cash equivalents - end of period	$ 24

See accompanying notes to condensed consolidated financial statements - unaudited

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
September 30, 2007
($ in thousands except share and per share data)

NOTE A - BASIS OF REPORTING

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted 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, the accompanying statements include all adjustments (consisting only of normal recurring items) that are considered necessary for a fair presentation of the financial position of Steven Madden, Ltd. and its subsidiaries (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, 2007 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, 2006 included in the Annual Report of Steven Madden, Ltd. on Form 10-K filed with the SEC on March 9, 2007.

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.

The 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 - RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform to the current period presentation.

NOTE D - NOTE RECEIVABLE - RELATED PARTY

On June 25, 2007, the Company made a loan to Steve Madden, its Creative and Design Chief and a principal shareholder of the Company, in the amount of $3,000, in order for Mr. Madden to exercise options that were due to expire and hold the underlying Company stock. Mr. Madden executed a secured promissory note in favor of the Company that bears interest at an annual rate of 8% and is due on the earlier of the date Mr. Madden ceases to be employed by the Company or December 31, 2007. Pursuant to a pledge agreement between the Company and Mr. Madden, the note is secured by 510,000 shares of the Company's common stock.

NOTE E - MARKETABLE SECURITIES

Marketable securities consist primarily of corporate and municipal bonds, U.S. treasury notes and government 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 shareholders' 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.

NOTE F - 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 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 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, watches, dresses and children's apparel. 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/or international distributors 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.

NOTE H - TAXES COLLECTED FROM CUSTOMERS

In June of 2006, the FASB issued 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"). The consensus reached in 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, providing them with inventory markdown allowances and participating in various other marketing initiatives of its major customers. 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, 2007, the total deduction to net sales for these expenses was $11,118 and $30,799, respectively, as compared to $9,675 and $24,980 for the comparable periods in 2006.

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 Consolidated Statement of Operations. These include the cost of finished products, purchase commissions, letter of credit fees, brokerage fees, sample expenses, custom duty, 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 Statement 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 common shares outstanding during the period. Diluted income per share reflects the potential dilution assuming common shares were issued upon the exercise of outstanding options and the proceeds thereof were used to purchase outstanding common shares. 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 includes 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, 2007, 300,000 stock options have been excluded from the calculation because inclusion of such shares would be anti-dilutive. No stock options have been excluded from the calculation for the three and nine months ended September 30, 2006.

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	910,000
Common Stock available for grant of stock -based awards as of September 30, 2007	640,000

Note L - STOCK-BASED COMPENSATION (continued)

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,	
	2007	2006	2007	2006
Restricted stock	$ 1,036	$ 768	$ 3,262	$ 1,3
Stock options	125	--	188	1
Total	$ 1,161	$ 768	$ 3,450	$ 1,4

Such compensation is included in operating expenses on the Company's Condensed Consolidated Statements of Operations. The Company realized a tax benefit from the exercise of stock options of $7,957 and $3,556 during the nine months ended September 30, 2007 and 2006, respectively.

Stock Options

During the three- and nine-month periods ended September 30, 2007, there were 30,000 and 825,000 options exercised with a total intrinsic value of $865 and $20,771, respectively, compared to 312,000 and 467,000 options exercised with a total intrinsic value of $6,680 and $8,444 for the corresponding periods of last year. No options vested during the three- and nine-month periods ended September 30, 2007, as compared to 30,000 options with a weighted average exercise price of $11.84 that vested during the first nine months of last year. As of September 30, 2007, there were 300,000 unvested options with a weighted average exercise price of $47.50 and an average vesting period of 1.6 years. There were no unvested options as of September 30, 2006.

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 special dividends paid in November of 2005 and 2006, the Company historically has not paid regular dividends and thus the expected dividend rate is assumed to be zero. The weighted average fair value of options granted during the nine months ended September 30, 2007 was approximately $5.01 using the Black-Scholes option-pricing model assuming a volatility of 37%, a risk free interest rate of 4.73%, an expected life of 3.13 years and no dividend yield.

Activity relating to stock options granted under the Company's plans and outside the plans during the nine months ended September 30, 2007 is as follows:

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	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregat Intrinsi Value

Outstanding at January 1, 2007	1,396,000	$ 8.75		
Granted	300,000	47.50		
Exercised	(825,000)	6.25		
Cancelled/Forfeited	--	--		
Outstanding at September 30, 2007	871,000	$ 24.48	5.1	$ 3,7
Exercisable at September 30, 2007	571,000	$ 12.38	6.4	$ 3,7

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STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
September 30, 2007
($ 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, 2007:

	Number of Shares	Weighted Average Fair Value at Grant Date
Non-vested at January 1, 2007	391,000	$ 32.07
Granted	225,000	30.02
Vested	(108,000)	32.24
Forfeited	(7,000)	34.05
Non-vested at September 30, 2007	501,000	$ 31.09

As of September 30, 2007, there was $12,898 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 3.2 years. During the year ended December 31, 2006, 165,000 restricted stock awards were granted to the Company's Creative and Design Chief. 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 equity interest of privately held Compo Enhancements, LLC ("Compo"). Compo was founded in late 2005 as a third party provider of e-commerce solutions for the Company. Management believes that 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 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. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, as well as third-party independent valuations. On a preliminary basis, as of June 30, 2007, the Company allocated $3,800 to the value of customer relationships, $930 to the value of a non-compete agreement and $4,437 to goodwill. In September 2007, the Company waived the working capital adjustment provision in the purchase agreement. As a result, goodwill was increased to $4,804. The value of customer relationships is being amortized over ten years and the non-compete agreement is being amortized over the five-year life of the agreement. 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, Jeffrey Silverman, founder, CEO and 42% owner of Compo, has been appointed President of the Company. Mr. Silverman's contract, which expires on December 31, 2009, provides for an annual salary of $600 and an annual bonus based on EBIT. In addition, Mr. Silverman 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 vest over three years.

NOTE M - ACQUISITIONS (CONTINUED)

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 is a manufacturer and distributor of name brand fashion handbags and accessories. The acquisition was completed for a consideration of $18,710, including transaction costs plus certain earn-out provisions based on financial performance beginning 2008 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. The resulting future earn-out payments will be charged to goodwill.

The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, as well as third-party independent valuations. The total preliminary purchase price has been allocated as follows:

Current assets	$	9,772
Property, plant and equipment		289
Deposits		62
Intangible assets		8,400
Goodwill		4,918
Liabilities assumed		(4,731)
Net assets acquired	$	18,710

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The results of operations of Daniel M. Friedman have been included in the Company's Condensed Consolidated Statements of Operations from the date of the acquisition. The following pro forma information presents the results of the Company's operations as though the Daniel M. Friedman acquisition had been completed as of the first day of the nine months ended September 30, 2006 below:

Net sales	$ 365,087
Operating income	62,339
Net income	36,584
Basic earnings per share	$ 1.75
Diluted earnings per share	$ 1.66

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, 2007:

	Wholesale			Net carryi
	Women's	Accessories	Retail	amount
Balance at January 1, 2007	$ 1,547	$ 4,918	$ 0	$ 6,4
Acquisition of Compo	0	0	4,804	4,8
Balance at September 30, 2007	$ 1,547	$ 4,918	$ 4,804	$ 11,2

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
September 30, 2007
($ in thousands except share and per share data)

NOTE N- GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

The following table details identifiable intangible assets as of September 30, 2007:

	Estimated lives	Cost basis	Accumulated Amortization	Net carryi amount
Trade name	6 years	$ 200	$ 56	$ 1
Customer relationships	10 years	6,400	579	5,8
License agreements	3-6 years	5,600	1,790	3,8
Non-compete agreement	5 years	930	78	8
Other	3 years	14	2	

	$ 13,144	$ 2,505	$ 10,6

The estimated future amortization expense of purchased intangibles as of September 30, 2007 is as follows:

2007 (remaining three months)	$ 490
2008	1,962
2009	1,859
2010	1,856
2011	1,381
Thereafter	3,091
	$ 10,639

NOTE O - COMPREHENSIVE INCOME

Comprehensive income for the three and nine month periods ended September 30, 2007, after considering other comprehensive income, including unrealized gain on marketable securities of $209 and $593, was $11,148 and $31,583, respectively. For the comparable periods ended September 30, 2006, after considering other comprehensive gain on marketable securities of $344 and $467, comprehensive income was $12,991 and $36,670, respectively.

NOTE P - INCOME TAXES

Changes in the Company's geographic sales mix 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 each of the New York State and New York City tax returns on a combined basis would maximize the tax benefits to the Company. The election to file combined returns has reduced the Company's expected effective tax rate to approximately 40.0% in 2007 from 42.8% in 2006. The Company filed combined returns in 2006 and was able to amend New York State and New York City returns for 2003 through 2005 resulting in an additional one-time tax benefit recognized in the third quarter of 2007. The true-up of the tax provision for the first six months of the year which was based on an effective tax rate of 42% resulted in an additional one-time benefit in the current quarter of 2007. A reconciliation of the Company's effective tax rate for the three- and nine-month periods ended September 30, 2007 is as follows:

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STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
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($ in thousands except share and per share data)

NOTE P - INCOME TAXES (CONTINUED)

	Three months ended September 30,	Nine mont ended September
Effective tax rate as of September 30, 2006	44.0%	
Reduction of state and local effective tax rates from filing combined New York State and New York City returns - net of federal income tax benefit	(4.0)	
Expected effective tax rate as of September 30, 2007	40.0	
One-time reductions to effective tax rate:		
True-up of 2006 tax provision	(13.3)	
Refund due on amended returns	(5.2)	
True-up of the six month period ended June 30, 2007	(2.7)	
Effective tax rate as of September 30, 2007	18.8%	

The Company currently expects that the effective tax rate for the fourth quarter of 2007 will remain at approximately 40%, however, the actual effective tax rate for the fourth quarter and the year may be different.

Effective January 1, 2007, the Company adopted the provisions of the Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty In Income Taxes" ("FIN 48"), which addresses the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken on the Company's tax return. Pursuant to FIN 48, the Company has opted to classify interest and penalties that would accrue according to the provisions of relevant tax law as income tax expense on the Condensed Consolidated Statements of Operations. The Company determines the amount of interest expense to be recognized by applying the applicable statutory rate of interest to the difference between the tax position recognized in accordance with FIN 48 and the amount previously taken or expected to be taken on a tax return. As required by FIN 48, the Company applied the "more-likely-than-not" recognition threshold to all tax positions at the adoption date, which resulted in no required adjustment to the opening balance of retained earnings. The adoption of FIN 48 did not have a material impact on the Company's results of operations and earnings per share. The Company's tax years 2003 through 2006 remain open to examination for most taxing authorities.

NOTE Q - RECENTLY ISSUED ACCOUNTING STANDARDS

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. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. The Company has not yet determined the impact, if any, that the implementation of SFAS No. 157 will have on its results of operations or financial condition.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
September 30, 2007
($ in thousands except share and per share data)

NOTE Q - RECENTLY ISSUED ACCOUNTING STANDARDS (CONTINUED)

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 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 not yet determined the impact, if any, that the implementation of SFAS No. 159 will have on its results of operations or financial condition.

NOTE R - COMMITMENTS, CONTINGENCIES AND OTHER

Legal proceedings:

(a) 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. 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.

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

Note S - 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 and other off-price retailers with respect to their procurement of private label shoes.

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STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
September 30, 2007
($ in thousands except share and per share data)

NOTE S - OPERATING SEGMENT INFORMATION (CONTINUED)

	Wholesale Segments			Total	
	Women's	Men's	Accessories	Wholesale	Retail
Quarter ended, September 30, 2007:					
Net sales to external customers	$ 58,004	$ 15,203	$ 12,791	$ 85,998	$ 27,39
Gross profit	21,039	5,936	4,117	31,092	15,72
Commissions and licensing fees - net	771	--	--	771	-
Income (loss) from operations	7,475	2,375	821	10,671	(1,43
Segment assets	$ 135,059	$ 21,594	$ 23,582	$ 180,235	$ 51,12
Capital expenditures				$ 1,459	$ 1,88
September 30, 2006:					
Net sales to external customers	$ 62,789	$ 16,253	$ 12,709	$ 91,751	$ 31,48
Gross profit	25,034	7,028	2,669	34,731	16,29
Commissions and licensing fees - net	733	--	--	733	-
Income (loss) from operations	13,879	3,290	(216)	16,953	1,80
Segment assets	$ 161,837	$ 19,236	$ 23,289	$ 204,362	$ 43,06
Capital expenditures				$ 1,181	$ 1,48

	Wholesale Segments			Total	
	Women's	Men's	Accessories	Wholesale	Retail
Nine months ended,					

September 30, 2007:					
Net sales to external customers	$ 168,101	$ 39,260	$ 39,552	$ 246,913	$ 81,39
Gross profit	60,262	15,589	11,958	87,809	46,62
Commissions and licensing fees - net	2,872	--	--	2,872	-
Income (loss) from operations	25,405	5,516	2,844	33,765	(38
Segment assets	$ 135,059	$ 21,594	$ 23,582	$ 180,235	$ 51,12
Capital expenditures				$ 2,685	$ 5,20
September 30, 2006:					
Net sales to external customers	$ 183,101	$ 49,539	$ 38,287	$ 270,927	$ 90,12
Gross profit	72,600	20,816	11,997	105,413	46,44
Commissions and licensing fees - net	2,259	--	--	2,259	-
Income from operations	36,890	9,342	4,460	50,692	2,77
Segment assets	$ 161,837	$ 19,236	$ 23,289	$ 204,362	$ 43,06
Capital expenditures				$ 2,707	$ 4,40

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

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

Statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this document as well as statements made in press releases and oral statements that may be made by the Company or by officers, directors or employees of the Company acting on the Company's behalf that are not statements of historical or current fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other unknown factors that could cause the actual results of the Company to be materially different from the historical results or from any future results expressed or implied by such forward-looking statements. In addition to statements which explicitly describe such risks and uncertainties, readers are urged to consider statements labeled with the terms "believes," "belief," "expects," "intends," "anticipates" or "plans" to be uncertain forward-looking statements. The forward-looking statements contained herein are also subject generally to other risks and uncertainties that are described from time to time in the Company's reports and registration statements filed with the Securities and Exchange Commission.

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

Steven Madden, Ltd. (together with its subsidiaries, the "Company") designs, sources, markets and retails fashion-forward footwear for women, men and children. In addition, the Company designs, sources, markets and retails name brand and private label fashion accessories, such as handbags and belts, through its Daniel M. Friedman Division. The Company distributes products through department and specialty stores throughout the United States and Canada, its

retail stores, its e-commerce website and through special distribution arrangements in Europe, Central and South America, Australia and Asia. The Company's product line includes a broad range of updated styles which are designed to establish or capitalize on market trends, complemented by core products. The Company has established a reputation for its creative designs, popular styles and quality products at accessible price points.

Consolidated net sales for the quarter ended September 30, 2007 were $113,395 as compared to $123,240 in the same quarter of the prior year. Gross margin in the third quarter of 2007 remained unchanged from the third quarter of 2006 at 41%. Net income for the third quarter of this year was $10,939, including a one-time gain of $2,692 resulting from tax savings related to prior periods and a one-time charge of $1,208 related to the provisions for prior years custom duties. Excluding these items, net income was $9,600, compared to $12,647 in the same period last year. Diluted EPS for the third quarter was $0.52 per share, including a one-time gain of $0.13 per share resulting from the above mentioned tax savings and a one-time charge of $0.03 per share related to the provision for prior years customs duties. Excluding these items, adjusted EPS for the quarter was $0.42 on 21,219 diluted weighted average shares outstanding compared to $0.57 per share on 22,136 diluted weighted average shares outstanding in the third quarter of last year.

The recent expansion of the Company's international business, as well as the continued growth in its private label business, resulted in an increase in the First Cost Division income. For the quarter ended September 30, 2007, income from operations in the First Cost Division increased to $3,564 from $3,117 in the same period of last year.

The Company has pursued a number of initiatives to enhance gross margins such as reducing freight costs, closeouts, store to store transfers and inventory shrinkage combined with better inventory controls. As a result, the gross margin in the Retail Division has increased to 57% in the third quarter of 2007 from 52% in the third quarter of 2006. This significant increase in gross margin occurred despite the disappointing sales results. Same store sales (sales in stores that were in operation throughout all of the third quarters of 2007 and 2006) decreased 15%. Store sales productivity decreased to sales per square foot of $669 in the third quarter of 2007 from $746 sales per square foot in the same quarter of last year.

Changes in the Company's geographic sales mix, combined with revisions in state and local tax law, prompted the Company to re-evaluate its tax filing strategies. The Company has determined that electing to file New York State and

New York City tax returns on a combined basis would maximize the tax benefits provided by changes in New York State allocation regulations. The election to file combined returns has reduced the Company's effective tax rate to 40.0% in 2007 from 42.8% in 2006. The Company filed combined returns in 2006 and was able to file amended New York State and New York City returns for 2003 through 2005 resulting in an additional one-time tax benefit in the third quarter of 2007. The true-up of the tax provision for the first six months of the year that was based on an effective tax rate of 42.0% resulted in an additional one-time benefit in the current quarter of 2007.

Pursuant to recent developments in the Company's case with Customs, Management, with the advice of legal counsel, has increased its provision for its liability in the case from the $1,500 previously recorded to $2,700. Accordingly, the Company recorded a $1,208 charge in operating expenses during the third quarter of 2007.

The Company's annualized inventory turnover increased to 7.8 times in the third quarter of 2007, compared to 7.3 in the third quarter of 2006. The Company's accounts receivable average collection days was 53 days in the third quarter of 2007 compared to 52 days in the third quarter of the previous year.

During the third quarter of 2007, Management demonstrated its commitment to enhancing shareholder value as well as its confidence in the Company's future by repurchasing 1,252,222 shares of the Company's common stock for $29,153 at an average price of $23.28.

As of September 30, 2007, the Company had $79,180 in cash, cash equivalents and marketable securities, no short or long-term debt, and total stockholders equity of $209,975. Working capital decreased to $140,605 as of September 30, 2007, compared to $162,577 as of September 30, 2006, primarily due to the cash used to repurchase the Company stock in the third quarter.

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

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

	2007		2006
CONSOLIDATED:			
Net sales	$ 113,395	100%	$ 123,240
Cost of sales	66,577	59	72,217
Gross profit	46,818	41	51,023
Other operating income - net of expenses	4,335	4	3,850
Operating expenses	38,352	34	32,999
Income from operations	12,801	11	21,874
Interest and other income, net	671	1	715
Income before income taxes	13,472	12	22,589
Net income	10,939	10	12,647
By Segment:			
WHOLESALE DIVISION:			
Net sales	$ 85,998	100%	$ 91,751
Cost of sales	54,906	64	57,020
Gross profit	31,092	36	34,731
Other operating income	771	1	733
Operating expenses	21,192	25	18,511
Income from operations	10,671	12	16,953
RETAIL DIVISION:			

Net sales	$	27,397	100%	$ 31,489
Cost of sales		11,671	43	15,197
Gross profit		15,726	57	16,292
Operating expenses		17,160	62	14,488
Income (loss) from operations		(1,434)	(5)	1,804
Number of stores		100		95
FIRST COST DIVISION:				
Other commission income - net of expenses	$	3,564	100%	$ 3,117

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Selected Financial Information
Nine Months Ended
September 30
($ in thousands)

		2007		2006
CONSOLIDATED:				
Net sales	$	328,305	100%	$ 361,055
Cost of sales		193,873	59	209,194
Gross profit		134,432	41	151,861
Other operating income - net of expenses		15,450	5	10,437
Operating expenses		103,922	32	100,654
Income from operations		45,960	14	61,644
Interest and other income, net		2,384	1	1,628
Income before income taxes		48,344	15	63,272
Net income		30,990	9	36,203
By Segment:				
WHOLESALE DIVISION:				
Net sales	$	246,913	100%	$ 270,927
Cost of sales		159,104	64	165,514
Gross profit		87,809	36	105,413
Other operating income		2,872	1	2,259
Operating expenses		56,916	23	56,980
Income from operations		33,765	14	50,692
RETAIL DIVISION:				
Net sales	$	81,392	100%	$ 90,128
Cost of sales		34,769	43	43,680
Gross profit		46,623	57	46,448
Operating expenses		47,006	57	43,674
Income (loss) from operations		(383)	0	2,774
Number of stores		100		95

FIRST COST DIVISION:

Other commission income- net of expenses	$ 12,578	100%	$	8,178

RESULTS OF OPERATIONS
($ in thousands)

Three Months Ended September 30, 2007 vs. Three Months Ended September 30, 2006

Consolidated:

Total net sales for the three-month period ended September 30, 2007 decreased by 8% to $113,395 from $123,240 for the comparable period of 2006. Net sales in the Retail Division decreased by 13% and net sales in the Wholesale Division decreased by 6%. Gross margin in the third quarter of 2007 remained unchanged from the third quarter of 2006 at 41%, as a significant increase in the Retail Division's gross margin was offset by a decrease in the Wholesale Division. Operating expenses increased in the third quarter of this year to $38,352 or 34% of net sales, from $32,999 or 27% of net sales in the same period last year.

Commission and licensing fee income was $4,335 in the third quarter of 2007 compared to $3,850 in the third quarter of 2006. Excluding the one-time charge for prior years customs duties, operating income was $14,009 in the third quarter of this year and $12,801 after the one-time charge for prior period custom duties compared to $21,874 in the same period last year. The Company's effective tax rate decreased to 19% in the quarter ended September 30, 2007, compared to 44% in same quarter last year due to a reduction in the cumulative effective tax rate to 40% and a one-time tax benefit related to prior periods in connection with filing combined tax returns for both New York State and New York City. Exclusive of the one-time gain of $2,692 resulting from the above mentioned tax savings and the one-time charge of $1,208 related to the provision for prior year customs duties, net income was $9,600. Including these one-time items, net income decreased to $10,939 in the third quarter of this year compared to $12,647 in the same period last year. The decrease in income was primarily due to the lower consolidated net sales and the increase in operating expenses.

Wholesale Division:

Net sales from the Wholesale Division accounted for $85,998 or 76%, and $91,751 or 74% of total Company net sales for the third quarter of 2007 and 2006, respectively. Net sales decreased in both the Steve Madden Womens and the Steven Divisions due to the absence of fashion trends in the marketplace and the nonexistence of a big item needed to drive significant sales volume in the Divisions. The weak performance of sport casual business resulted in a decrease of net sales in Steve Madden Mens Division. In addition, net sales for the third quarter of 2006 included approximately $3,000 in net sales from Rule which is a brand that was discontinued late in 2006. These decreases in net sales were partially offset by net sales increases in the Candies, Stevies and Madden Girl Divisions.

Gross profit margin decreased to 36% in the third quarter of this year from 38% in the same period last year, due to an increase in markdowns and allowances in

the Steven Division required to liquidate retail inventory levels combined with an increase in promotional selling in the other footwear brands. In the third quarter of 2007, operating expenses increased to $21,192 from $18,511 for the same period last year. The increase was caused primarily by the provision of $1,208 for prior years custom duties and payroll costs related to additional hires for a new division. Finally, an upgrade in the Company's communication platform resulted in an increase of payments to third-party service providers. Income from operations for the Wholesale Division decreased to $10,671 for the three-month period ended September 30, 2007 compared to $16,953 for the three-month period ended September 30, 2006. Excluding the one-time charge for prior years customs duties, income from operations was $11,879.

Retail Division:

In the third quarter of 2007 net sales from the Retail Division accounted for $27,397 or 24% of total Company net sales compared to $31,489 or 26% in the same period last year. The Company opened five new stores during the twelve months ended September 30, 2007. As a result, the Company had 100 retail stores as of September 30, 2007 compared to 95 stores as of September 30, 2006. The 100 stores currently in operation include 94 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 2007 and 2006) decreased 15% in the third quarter of this year due to the lower than expected early boot sales during the back to school selling season and the absence of a significant fashion trend. The Company has pursued a number of initiatives to enhance gross margins such as reducing freight costs, close outs, store to store transfers and inventory shrinkage combined with better inventory controls. As a result, the gross margin in the Retail Division has increased to 57% in the third quarter of 2007 from 52% in the third quarter of 2006. In the third quarter of 2007, operating expenses increased to $17,160 from $14,488 in the third quarter last year due largely to the incremental increase in payroll, rent and depreciation expenses related to the addition of five new stores. In addition, an upgrade in the Company's communication platform resulted in an increase of payments to third-party service providers. Loss from operations for the Retail Division was $1,434 in the third quarter of this year compared to income from operations of $1,804 for the same period in 2006.

First Cost Division:

The First Cost Division generated net commission income and design fees of $3,564 for the three-month period ended September 30, 2007, compared to $3,117 for the comparable period of 2006. The increase was the result of the recent expansion of the Company's international business as well as the continued growth in private label business.

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Nine Months Ended September 30, 2007 vs. Nine Months Ended September 30, 2006

Consolidated:

Total net sales for the nine-month period ended September 30, 2007 decreased by 9% to $328,305 from $361,055 for the comparable period of 2006. Net sales in the Retail Division decreased by 10% and net sales in the Wholesale Division decreased by 9%. Overall gross profit margin decreased to 41% in the first nine months of 2007 from 42% in the first nine months of 2006. A decrease in the Wholesale gross profit margin to 36% in the first nine months of this year

compared to 39% in the same period last year was partially offset by an increase in the Retail gross profit margin to 57% in the first nine months of this year from 52% in the same period last year. Operating expenses increased in the first nine months of this year to $103,922 or 32% of net sales from $100,654 or 28% of net sales in the same period last year. Commission and licensing fee income was $15,450 in the first nine months of 2007 compared to $10,437 in the first nine months of 2006. Excluding the one-time charge for prior years customs duties, operating income was $47,168. Including the one-time charge, income from operations was $45,960 in the first nine months of this year compared to $61,644 in the same period last year. The Company's effective tax rate decreased to 36% in the nine months ended September 30, 2007 compared to 43% in same period of last year due to a reduction in the effective tax rate to 40% and a one-time tax benefit related to prior periods, all connected to the Company's election to file combined tax returns for both New York State and New York City. Exclusive of the above mentioned one-time gain of $2,692 resulting from tax savings and the one-time charge of $1,208 related to custom duties, net income was $29,651. Including the one-time charges, net income decreased to $30,990 in the first nine months of this year compared to $36,203 in the same period last year. The decrease in income was primarily due to the decrease in net sales and an increase in operating expenses.

Wholesale Division:

Net sales from the Wholesale Division accounted for $246,913 or 75%, and $270,927 or 75% of total Company net sales for the first nine months of 2007 and 2006, respectively. The decrease in sales was concentrated primarily in three of the Company's wholesale brands. In the Steve Madden Womens Division, the decrease in sales was due to disappointing sell-throughs on boots earlier in the year and the absence of a significant trend right product such as the peep toe trend that drove sales last year. The continued weakness in the sport casual business resulted in disappointing sales in Steve Madden Mens Division while in the Steven Division, the poor performance of dress shoes combined with the absence of fashion trends in the marketplace and the nonexistence of a big item resulted in lower sales. In addition, net sales for the nine-month period ended September 30, 2006 include approximately $14,700 in net sales from Rule, l.e.i. and Jump, three brands that were discontinued late in 2006. These decreases were partially offset by the double-digit net sales increases achieved in both the Madden Girl and the Stevies Divisions.

Gross profit margin decreased to 36% in the first nine months of this year from 39% in the same period last year, due primarily to a significant increase in markdowns required to liquidate retail inventories and an increase in promotional selling across all the Company's wholesale brands. In the first nine months of 2007, operating expenses remained virtually unchanged at $56,916 compared to $56,980 in the same period of 2006. Income from operations for the Wholesale Division decreased to $33,765 for the nine-month period ended September 30, 2007 compared to $50,692 for the nine-month period ended September 30, 2006. Excluding the one-time charge for prior years customs duties, income from operations was $34,973.

Retail Division:

In the first nine months of 2007, net sales from the Retail Division accounted for $81,392 or 25% of total Company net sales compared to $90,128 or 25% in the same period last year. The Company opened five new stores during the twelve months ended September 30, 2007. As a result, the Company had 100 retail stores as of September 30, 2007 compared to 95 stores as of September 30, 2006. The 100 stores currently in operation include 94 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 2007 and 2006) decreased 11% in the first nine months of this year due to the lack of any significant fashion trends, lower than expected boot sales earlier in the year, and disappointing results during the back to school selling season. The Company has pursued a number of initiatives to enhance gross margins such as reducing freight costs, close outs, store to store transfers and inventory shrinkage combined with better inventory controls. As a result, the gross margin in the Retail Division has increased to 57% in the first nine months of 2007 from 52% in the first nine months of 2006. Loss from operations for the Retail

Division was $383 in the first nine months of this year compared to income from operations of $2,774 for the same period in 2006.

First Cost Division:

The First Cost Division generated net commission income and design fees of $12,578 for the nine-month period ended September 30, 2007, compared to $8,178 for the comparable period of 2006. The substantial increase was the result of the recent expansion of the Company's international business as well as the continued growth in private label business.

LIQUIDITY AND CAPITAL RESOURCES
($ in thousands)

The Company had working capital of $140,605 at September 30, 2007 compared to $151,711 at December 31, 2006. The decrease was primarily due to the repurchase of 1,962,409 shares of the Company's common stock at a total cost of $50,094.

The Company has a factoring agreement with GMAC under which the Company is eligible to borrow against its invoiced receivables at an interest rate equal to the lower of the prime rate less 0.875% or the 30 day London Interbank Offered Rate ("LIBOR") 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 the Company 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.

As of September 30, 2007, the Company held marketable securities valued at $54,548, consisting primarily of corporate and municipal bonds, U.S. Treasury notes, government asset-backed securities, certificates of deposits and equities.

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

OPERATING ACTIVITIES
($ in thousands)

During the nine-month period ended September 30, 2007, net cash provided by operating activities was $23,718. The primary sources of cash were net income of $30,990 and increases in accounts payable and other accrued expenses of $7,259. The primary uses of cash were increases in due from factor of $9,257, an increase in prepaid expenses, prepaid taxes, deposits and other assets of $8,930, an increase in note receivable of $3,000 and an increase in inventories

of $2,605.

INVESTING ACTIVITIES
($ in thousands)

During the nine-month period ended September 30, 2007, the Company invested $35,340 in marketable securities and received $70,910 from the maturities and sales of securities. The Company also invested $8,983 in the acquisition of Compo. Additionally, the Company made capital expenditures of $7,894, principally for the four new stores opened in the current period, the construction of four stores scheduled to open in the fourth quarter, and the remodeling of eight existing stores.

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FINANCING ACTIVITIES
($ in thousands)

During the nine-month period ended September 30, 2007, the Company repurchased 1,962,409 shares of the Company's common stock at an average price of $25.53 for a total cost of $50,094. The Company received $5,154 in cash and realized a tax benefit of $7,957 in connection with the exercise of stock options.

CONTRACTUAL OBLIGATIONS
($ in thousands)

The Company's contractual obligations as of September 30, 2007 were as follows:

		Payment due by period		
Contractual Obligations	Total	Remainder of 2007	2008-2009	2010-201
Operating lease obligations	$ 119,814	$ 4,054	$ 31,505	$ 29,4
Purchase obligations	54,198	54,198	0	
Other long-term liabilities (future minimum royalty payments)	810	50	540	2
Total	$ 174,822	$ 58,302	$ 32,045	$ 29,7

At September 30, 2007, the Company had un-negotiated open letters of credit for the purchase of inventory of approximately $2,429.

The Company has an employment agreement with Steven Madden, its 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 May 16, 2007, the Company acquired all of the equity interest of privately

held Compo. The acquisition was completed for a consideration of $8,983, including transaction costs. In addition, the purchase agreement includes certain earn-out provisions based on financial performance through 2012.

On February 7, 2006, the Company acquired all of the equity interest of Daniel M. Friedman. The acquisition was completed for a consideration of $18,710, including transaction costs. In addition, the purchase agreement includes certain earn-out provisions based on financial performance through 2008.

The Company has employment agreements with certain executive officers, which provide for the payment of compensation aggregating approximately $2,477 in 2007, $2,415 in 2008 and $1,680 in 2009. 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. The Chief Operating Officer of the Company is entitled to deferred compensation calculated as a percentage of his base salary.

Ninety-nine percent (99%) of the Company's products are produced at overseas locations, the majority of which are located in China, with a small percentage located in Brazil, Italy, India and Spain. The Company has not entered into any long-term manufacturing or supply contracts with any of these foreign companies. The Company believes that a sufficient number of alternative sources exist outside of the United States for the manufacture of its products. The Company currently makes approximately 99% of its purchases in U.S. dollars.

INFLATION

The Company does not believe that the relatively low rates of inflation experienced over the last few years in the United States, where it primarily competes, have had a significant effect on sales, expenses or profitability.

CRITICAL ACCOUNTING POLICIES AND THE USE OF ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company's 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. Estimates for the Company 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 the Company 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 the Company's 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. The Company provides reserves against its trade accounts receivables for future customer chargebacks, co-op advertising allowances, discounts, returns, bad debts for non-factored accounts and other miscellaneous deductions that relate to the current period. 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. The Company evaluates anticipated customer markdowns and advertising chargebacks by reviewing several performance indicators for its 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 the Company's results of operations and financial position.

Inventory reserves. Inventories are stated at lower of cost or market, on a first-in, first-out basis. The Company reviews 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. The Company considers 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 the Company's product. A misinterpretation or misunderstanding of future consumer demand for the Company's 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 the Company's 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 the Company's results of operation and financial position.

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 item on the Company's 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 for the Wholesale Division are included in the operating expenses line item of the Company's Condensed Consolidated Statements of Operations. The Company classifies shipping costs, if any, to customers as operating expenses. The Company's 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 the Company and include them in operating expenses.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
($ in thousands)

The Company does not engage in the trading of market risk sensitive instruments in the normal course of business. Financing arrangements for the Company are subject to variable interest rates primarily based on LIBOR and the prime rate. An analysis of the Company's 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, 2007, the Company held marketable securities valued at $54,548, which consist primarily of corporate and municipal bonds, U.S. treasury notes, certificates of deposit and government asset-backed securities that have various maturities through December 2010, as well as marketable equity securities. These securities are subject to interest rate risk and will decrease in value if interest rates increase. The Company currently has the ability to hold these securities until maturity. In addition, any decline in interest rates would be expected to reduce the Company's interest income.

ITEM 4. CONTROLS AND PROCEDURES

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its 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 the Company's 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 the Company in reports that it files or submits 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 the Company's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(d) under the Exchange Act, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the Company's 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, the Company's 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 the Company is involved are discussed in Note K to the consolidated financial statements and Part I, Item 3 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. The following discussion is limited to recent developments concerning certain of the Company's legal proceedings and should be read in conjunction with the Company's earlier SEC Reports. Unless otherwise indicated, all proceedings discussed in those earlier reports remain outstanding.

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. 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.

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.

ITEM 1A. RISK FACTORS

The risk factors included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 have not materially changed.

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

The following table provides information as of September 30, 2007 with respect to the shares of the Company's Common Stock repurchased by the Company during the third quarter of 2007:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Dollar Shares that May Purchased Under Programs (1)
07/1/07 - 7/31/07	0	$ 0	0	$38,
8/01/07 - 8/31/07	826,222	$25.34	826,222	$54,

9/1/07 - 9/30/07	426,000	$19.28	426,000	$46,
Total	1,252,222	$23.28	1,252,222	$46,

(1) On August 6, 2007, the Board of Directors authorized the Company to repurchase up to $37 million of the Company's common stock in addition to the amount previously authorized. At September 30, 2007, an aggregate of $46 million remained authorized to repurchase the Company's Common Stock.

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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

10.1 Secured Promissory Note, dated June 25, 2007, of Steven Madden to the Company.

10.2 Form of Non-Qualified Stock Option Agreement (Chief Executive Officer) under the Company's 2006 Stock Incentive Plan, as amended (the "Plan"), as adopted October 30, 2007.

10.3 Form of Non-Qualified Stock Option Agreement (Employee without Employment Agreement) under the Plan, as adopted October 30, 2007.

10.4 Form of Non-Qualified Stock Option Agreement (Employee with Employment Agreement) under the Plan, as adopted October 30, 2007.

10.5 Form of Restricted Stock Agreement (Chief Executive Officer) under the Plan, as adopted October 30, 2007.

10.6 Form of Restricted Stock Agreement (Employee without Employment Agreement) under the Plan, as adopted October 30, 2007.

10.7 Form of Restricted Stock Agreement (Employee with Employment Agreement) under the Plan, as adopted October 30, 2007.

10.8 Form of Restricted Stock Agreement under the Plan used for grants made to non- employee directors from March 2006 through May 2007, with a schedule setting forth the name of each of the recipients, the date of the grant and the number of shares.

10.9 Restricted Stock Agreement, dated March 24, 2006, between Jamieson A. Karson and the Company.

10.10 Restricted Stock Agreement, dated March 27, 2007, between Jamieson A. Karson and the Company.

10.11 Amendments to Restricted Stock Agreements, dated as of March 23, 2007, between Jamieson A. Karson and the Company.

10.12 Restricted Stock Agreement, dated March 24, 2006, between Steven H. Madden and the Company.

10.13 Restricted Stock Agreement, dated June 9, 2006, between Steven H. Madden and the Company.

10.14 Restricted Stock Agreement, dated March 24, 2006, between Arvind Dharia and the Company.

10.15 Restricted Stock Agreement, dated March 20, 2006, between Amelia Newton Varela and the Company.

10.16 Restricted Stock Agreement, dated March 20, 2006, between Robert Schmertz and the Company.

10.17 Restricted Stock Agreement, dated March 6, 2007, between Arvind Dharia and the Company.

10.18 Restricted Stock Agreement, dated March 9, 2007, between Robert Schmertz and the Company.

10.19 Restricted Stock Agreement, dated April 25, 2007, between Awadhesh Sinha and the Company.

10.20 Non-Qualified Stock Option Agreement, dated May 16, 2007, between Jeffrey Silverman and the Company.

10.21 Non-Qualified Stock Option Agreement, dated May 16, 2007, between Jeffrey Silverman and the Company.

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14 or 15d-14 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 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as 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, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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 9, 2007

STEVEN MADDEN, LTD.

/s/ JAMIESON A. KARSON

Jamieson A. Karson
Chairman and Chief Executive Officer

/s/ ARVIND DHARIA

Arvind Dharia
Chief Financial Officer

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