STEVEN MADDEN, LTD.
Form 10-Q
May 12, 2008

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 March 31, 2008

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

For the transition period from ____________________ to ____________________

Commission File Number 0-23702

STEVEN MADDEN, LTD.

(Exact name of Registrant as specified in its charter)

Delaware	**13-3588231**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

52-16 Barnett Avenue, Long Island City, New York	**11104**
(Address of principal executive offices)	(Zip Code)

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 o

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

As of May 6, 2008, the latest practicable date, there were 17,650,545 shares of common stock, $.0001 par value, outstanding.

STEVEN MADDEN, LTD.
FORM 10-Q
QUARTERLY REPORT
March 31, 2008

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Item 1. Condensed Consolidated Financial Statements

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
(in thousands)

	March 31, 2008	December 31, 2007	March 31, 2007
	(unaudited)		(unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	**$ 22,951**	$ 29,446	$ 11,467
Accounts receivable, net of allowances of $1,891, $1,967 and $1,172	**6,092**	8,351	7,112
Due from factor, net of allowances of $10,466, $13,479 and $9,082	**46,355**	32,819	43,608
Note receivable related party	**3,187**		
Inventories	**26,407**	27,197	28,654
Marketable securities - available for sale	**9,391**	51,028	63,359
Prepaid expenses and other current assets	**6,932**	5,840	7,451
Prepaid taxes	**6,662**	4,819	3,437
Deferred taxes	**9,546**	9,355	8,110
Total current assets	**137,523**	168,855	173,198
Note receivable related party		3,126	
Property and equipment, net	**28,957**	28,653	23,128
Deferred taxes	**7,171**	7,232	6,707
Deposits and other	**2,421**	3,202	3,132
Marketable securities - available for sale	**23,269**	29,383	15,223
Goodwill net	**16,942**	15,922	6,465
Intangibles - net	**9,658**	10,148	6,801
Total assets	**$ 225,941**	$ 266,521	$ 234,654
LIABILITIES			
Current liabilities:			
Accounts payable	$ **24,085**	$ 24,827	$ 16,325
Accrued expenses	**16,866**	16,757	11,398
Accrued incentive compensation	**5,434**	6,133	2,065
Total current liabilities	**46,385**	47,717	29,788
Deferred rent	**4,449**	3,470	3,233
Total liabilities	**50,834**	51,187	33,021
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 - $.0001 par value, 90,000 shares authorized, 25,846, 25,780 and 24,846 shares issued, 17,584, 20,118 and 20,436 outstanding	**3**	3	2
Additional paid-in capital	**132,036**	129,913	113,704
Retained earnings	**171,315**	169,263	143,094
Other comprehensive loss:			
Unrealized loss on marketable securities (net of taxes)	**(263)**	(61)	(536)
Treasury stock 8,262, 5,662 and 4,410 shares at cost	**(127,984)**	(83,784)	(54,631)
Total stockholders equity	**175,107**	215,334	201,633
Total liabilities and stockholders equity	**$ 225,941**	$ 266,521	$ 234,654

See accompanying notes to condensed consolidated financial statements - unaudited 1

STEVEN MADDEN, LTD. AND SUBSIDIARIES

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

	Three Months Ended March 31,	
	2008	**2007**
Net sales:		
Wholesale	**$ 75,560**	$ 82,299
Retail	**24,979**	24,355
	100,539	106,654
Cost of sales:		
Wholesale	**47,274**	52,502
Retail	**13,050**	11,958
	60,324	64,460
Gross profit:		
Wholesale	**28,286**	29,797
Retail	**11,929**	12,397
	40,215	42,194
Commission and licensing fee income - net	**3,356**	5,446
Operating expenses	**(40,734)**	(31,971)
Income from operations	**2,837**	15,669
Interest and other income - net	**526**	910
Income before provision for income taxes	**3,363**	16,579
Provision for income taxes	**1,311**	7,046
Net income	**$ 2,052**	$ 9,533
Basic income per share	**$ 0.10**	$ 0.45
Diluted income per share	**$ 0.10**	$ 0.43
Basic weighted average common shares outstanding	**20,045**	20,960

Effect of dilutive securities - options/restricted stock	**219**	1,003
Diluted weighted average common shares outstanding	**20,264**	21,963

See accompanying notes to condensed consolidated financial statements - unaudited 2

STEVEN MADDEN, LTD. AND SUBSIDIARIES

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Cash flows from operating activities:		
Net income	$ 2,052	$ 9,533
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Excess tax benefit from the exercise of options	(15)	
Depreciation and amortization	2,356	1,922
Loss on disposal of fixed assets	154	312
Deferred taxes	(40)	
Non-cash compensation	2,094	1,012
Provision for doubtful accounts and chargebacks	(3,089)	(2,254)
Deferred rent expense	979	97
Realized loss on sale of marketable securities	534	196
Changes in:		
Accounts receivable	2,335	42
Due from factor	(10,523)	(983)
Inventories	790	5,006
Prepaid expenses, prepaid taxes, deposits and other assets	(2,239)	(4,082)
Accounts payable and other accrued expenses	2,572	(6,544)
Net cash (used in) provided by operating activities	(2,040)	4,257
Cash flows from investing activities:		
Purchases of property and equipment	(2,286)	(2,138)
Purchases of marketable securities	(282)	(7,671)
Sale/redemption of marketable securities	47,207	18,756
Acquisition, net of cash acquired *	(4,923)	
Net cash provided by investing activities	39,716	8,947
Cash flows from financing activities:		
Proceeds from exercise of stock options	14	
Excess tax benefit from the exercise of options	15	
Common stock purchased for treasury	(44,200)	(20,941)
Net cash used in financing activities	(44,171)	(20,941)
Net decrease in cash and cash equivalents	(6,495)	(7,737)
Cash and cash equivalents - beginning of period	29,446	19,204
Cash and cash equivalents - end of period	$ 22,951	$ 11,467

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

See accompanying notes to condensed consolidated financial statements - unaudited 3

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
March 31, 2008
($ 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 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 Steven Madden, Ltd. and subsidiaries (the Company) and the results of its operations and cash flows for the periods presented. The results of its operations for the three-month period ended March 31, 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.

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 - 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 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 March 31, 2008, $187 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 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.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
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NOTE D - MARKETABLE SECURITIES (CONTINUED)

As of March 31, 2008, the Company held $16,070 in auction rate securities (ARS). The contractual maturities of the investments underlying the ARS mature at various dates through 2046, however, all the Company s ARSs have a reset period of less than 30 days. Through May 7, 2008, all of the Company s ARSs have failed at auction multiple times, resulting in the Company continuing to hold these securities. Based on current market conditions, it is likely that auctions related to these securities will continue to be unsuccessful in the near term. Unsuccessful auctions could result in the Company holding securities beyond their next scheduled auction reset dates if a secondary market does not develop, therefore limiting the short-term liquidity of these investments. Accordingly, the auction rate securities are classified as long term as of March 31, 2008. While these failures in the auction process have affected the Company s ability to access these funds in the near term, the Company does not believe that the underlying securities or collateral have been affected. As a result of the lack of liquidity in the ARS market and not as a result of the quality of the underlying collateral, for the three months ended March 31, 2008, the Company recorded unrealized loss on its ARSs of $230. The valuation may be revised in future periods as market conditions evolve. Refer to Note Q for further discussion on the Company s valuation of 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 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 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
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($ 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, 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 net sales. For the three-month periods ended March 31, 2008 and 2007, the total deduction to net sales for these expenses was $7,631 and $9,359, respectively.

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, custom 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 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 shares of common stock 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 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 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 the three months ended March 31, 2008, approximately 66,000 stock options have been excluded from the calculation because inclusion of such shares would be antidilutive. No stock options were excluded from the calculation for the three months ended March 31, 2007. For the quarters ended March 31, 2008 and 2007, the unvested restricted stock awards were dilutive.

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:

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Notes to Condensed Consolidated Financial Statements - Unaudited
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NOTE L - STOCK-BASED COMPENSATION (CONTINUED)

Common Stock authorized	1,550,000
Stock based awards, including restricted stock and stock options, granted net of expired or cancelled	703,000
Common Stock available for grant of stock based awards as of March 31, 2008	847,000

Total equity-based compensation for the three months ended March 31 is as follows:

	2008	2007
Restricted stock	**$ 2,082**	$ 1,102
Stock options	**12**	
Total	**$ 2,094**	$ 1,102

On March 24, 2008, Jamieson Karson resigned from his position as Chief Executive Officer and Chairman of the Board of Directors. For the purposes of determining any payments to which Mr. Karson was entitled following his resignation, it was mutually agreed to treat his resignation as a termination without Cause, as defined in Mr. Karson s employment agreement. Pursuant to an agreement with the Company, 42,500 shares of restricted stock that were due to vest in varying amounts over the next four years vested on the date of termination. Accordingly, the balance of unamortized stock-based compensation related to Mr. Karson 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. The Company realized a tax benefit from the exercise of stock options of $15 during the three months ended March 31, 2008, and there was no tax benefit realized in the same period of last year.

Stock Options

There were 3,000 options exercised with a total proceeds of $14 and a total intrinsic value of $39 during the three months ended March 31, 2008 and there were no options exercised in the corresponding period of last year. No options vested during the three months ended March 31, 2008 and 2007. As of March 31, 2008, there were 89,000 unvested options with a total of unrecognized compensation cost $464 and an average vesting period of 3.3 years. There were no unvested options as of March 31, 2007. On April 29, 2008, 100,000 options were granted to the Company s founder and Creative and Design Chief.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of options granted, which requires several assumptions. The expected term of the options represents the estimated period of time until exercise and is based on the historical experience of similar awards. Expected volatility is based on the historical volatility of the Company s 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 three months ended March 31, 2008 was approximately $5.70 using the Black-Scholes option-pricing model assuming a volatility between 42% and 43%, a risk free interest rate between 2.32% and 2.68%, an expected life of 3.1 years and no dividend yield. Activity relating to stock options granted under the Company s plans and outside the plans during the three months ended March 31, 2008 is as follows:

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NOTE L - STOCK-BASED COMPENSATION (CONTINUED)

	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	**84,000**	**17.74**		
Exercised	**(3,000)**	**4.67**		
Cancelled/Forfeited				
Outstanding at March 31, 2008	**619,000**	**$ 13.21**	**6.4**	**$ 2,500**
Exercisable at March 31, 2008	**530,000**	**$ 12.45**	**5.8**	**$ 2,483**

Restricted Stock

The following table summarizes restricted stock activity during the three months ended March 31, 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			178,000	29.65
Vested	**(63,000)**	**32.05**	(40,000)	33.83
Forfeited	**(4,000)**	**34.05**	(3,000)	34.05
Non-vested at March 31	**440,000**	**$ 30.71**	526,000	$ 31.11

As of March 31, 2008, there was $9,848 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 2.9 years. During the year ended December 31, 2006, 165,000 restricted stock awards were granted to the Company s founder and 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. During the three-month periods ended March 31, 2008 and 2007, the Company did not realize any tax benefits from the vesting of restricted stock.

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

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
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NOTE M ACQUISITIONS (CONTINUED)

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 of 2007, Jeffrey Silverman, the founder and CEO 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

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, Mr. Silverman was appointed President of the Company. Mr. Silverman s contract, which was to expire 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 were to vest over three years. In December of 2007, an amendment to Mr. Silverman s contract shortened the expiration date to June 30, 2008, eliminated the bonus provision of the contract and cancelled all of the stock options. Mr. Silverman resigned from his position of President of the Company effective as of April 4, 2008. The Company has retained Mr. Silverman 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 ending June 30, 2008. In consideration of such services, Mr. Silverman is entitled to receive $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, as well as third-party independent valuations. The total purchase price has been allocated as follows:

STEVEN MADDEN, LTD. AND SUBSIDIARIES

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NOTE M ACQUISITIONS (CONTINUED)

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 Deposits and other category on the Company s Condensed Consolidated Balance Sheets.

NOTE N GOODWILL AND INTANGIBLE ASSETS

The following is a summary of the carrying amount of goodwill by segment for the three months ended March 31, 2008:

	Wholesale			
	Women s	Accessories	Retail	Net Carrying Amount
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 March 31, 2008	$ 1,547	$ 9,894	$ 5,501	$ 16,942

The following table details identifiable intangible assets as of March 31, 2008:

	Estimated lives	Cost basis	Accumulated Amortization	Net Carrying Amount
Trade name	6 years	$ 200	$ 73	$ 127
Customer relationships	10 years	6,400	900	5,500
License agreements	3-6 years	5,600	2,328	3,272
Non-compete agreement	5 years	930	181	749
Other	3 years	14	4	10

$ 13,144	$ 3,486	$ 9,658

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STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
March 31, 2008
($ in thousands except share and per share data)

NOTE N GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

The estimated future amortization expense of purchased intangibles as of March 31, 2008 is as follows:

2008 (remaining nine months)	$ 1,471
2009	1,859
2010	1,856
2011	1,381
2012	642
Thereafter	2,449
	$ 9,658

NOTE O COMPREHENSIVE INCOME

Comprehensive income for the three-month periods ended March 31, 2008 and 2007, after considering other comprehensive income (loss) including unrealized gain (loss) on marketable securities of $(202) and $105, was $1,850 and $9,638, respectively.

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 each of its New York State and New York City tax returns on a combined basis would maximize the tax benefits available to the Company. The election to file combined returns, combined with other tax strategies, has reduced the Company s expected effective tax rate to 39.0% in the first quarter of 2008 from 42.5% in the first quarter of last year.

The Company is currently under examination by New York State for the years 2003 through 2006. The ultimate outcome of the audit 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 of 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.

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NOTE Q ACCOUNTING STANDARDS ADOPTED IN FISCAL 2008 (CONTINUED)

The Company s financial assets subject to fair value measurements as of March 31, 2008 are as follows:

		Fair Value Measurements Using Fair Value Hierarchy		
	Fair value	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 22,951	$ 22,951		
Current marketable securities available for sale	9,391	9,391		
Long-term marketable securities available for sale	23,269	7,199		$ 16,070
Total	$ 55,611	$ 39,541		$ 16,070

As a result of the lack of liquidity in the ARS market and not as a result of the quality of the underlying collateral, for the three months ended March 31, 2008, the Company recorded an unrealized loss on its student loan related ARSs of $230. Our valuation method considered several factors, including discounted cash flow models, the underlying structure of each security, limited input from brokers and ARS market conditions. The ARSs have been classified within level 3 as their valuation required substantial judgment and estimation of factors that are not currently observable in the market due to the lack of trading in the securities. The valuation may be revised in future periods as market conditions evolve.

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

	Investments in Auction Rate Securities
Balance at January 1, 2008	$
Transfers to level 3	16,300
Unrealized losses recorded to other comprehensive income	(230)
Losses deemed to be other than temporary recorded in earnings	
Balance at March 31, 2008	$ 16,070

As of March 31, 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 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.

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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. We have not yet determined the impact, if any, that the implementation of SFAS No. 141R will have on our 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. We have not yet determined the impact, if any, that the implementation of SFAS No. 160 will have on our results of operations or financial condition.

NOTE S - COMMITMENTS, CONTINGENCIES AND OTHER

[1] 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 its preliminary report, Customs estimated that the Company had underpaid duties during the calendar years of 1998 through 2004 in the amount of $1,051. 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 evaluated the liability in the case, including interest and penalties, and believes that it is not likely to exceed $2,700. Accordingly, a Customs reserve, which was initially recorded in 2005, and has been revised from time to time to reflect changes in the status of this matter, was most recently adjusted to $2,700 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.

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[2] Employment agreement:

Effective as of March 24, 2008, the Company entered into an employment agreement with Edward R. Rosenfeld, pursuant to which Mr. Rosenfeld will serve as the Company s Interim Chief Executive Officer. The agreement, which expires on December 31, 2009, provides for an annual salary of $400,000. In addition, Mr. Rosenfeld received 40,000 stock options that will vest equally on the anniversary date of the agreement over five years.

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, girl s and children s footwear and accessories. In addition, the Wholesale segment has a licensing program that extends the 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 of footwear products to mass-market merchandisers, shoe chains and other off-price retailers with respect to their purchase of private label shoes.

	Wholesale segments						
Quarter ended,	Women s	Men s	Accessories	Total Wholesale	Retail	First Cost	Consolidated
March							