STEVEN MADDEN, LTD.
Form 10-Q
May 08, 2009

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, 2009

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T ('232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.
Yes o 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 the

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 5, 2009, the latest practicable date, there were 17,976,774 shares of common stock, $.0001 par value, outstanding.

STEVEN MADDEN, LTD.
FORM 10-Q
QUARTERLY REPORT
March 31, 2009

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STEVEN MADDEN, LTD. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
(in thousands)

	March 31, 2009	December 31, 2008	March 31, 2008
	(unaudited)		(unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$ **63,235**	$ 89,588	$ 22,951
Accounts receivable, net of allowances of $1,402, $1,530 and $1,891	**7,094**	5,567	6,092
Due from factor, net of allowances of $7,613, $9,771 and $10,466	**42,262**	34,311	46,355
Note receivable – related party	**—**	3,370	3,187
Inventories	**28,071**	31,597	26,407
Marketable securities - available for sale	**13,002**	14,609	9,391
Prepaid expenses and other current assets	**5,388**	5,645	6,932
Prepaid taxes	**—**	2,069	6,662
Deferred taxes	**8,029**	7,980	9,546
Total current assets	**167,081**	194,736	137,523
Note receivable – related party	**3,430**	—	—
Property and equipment, net	**27,058**	28,209	28,957
Deferred taxes	**7,039**	7,112	7,171
Deposits and other	**1,950**	2,260	2,421
Marketable securities - available for sale	**16,393**	20,615	23,269
Goodwill – net	**23,472**	23,574	16,942
Intangibles – net	**7,722**	8,187	9,658
Total Assets	$ **254,145**	$ 284,693	$ 225,941
LIABILITIES			
Current liabilities:			
Advances payable - factor	$ **—**	$ 30,168	$ —
Accounts payable	**16,696**	18,018	24,085
Accrued expenses	**14,618**	16,435	16,866
Accrued incentive compensation	**2,747**	7,869	5,434
Total current liabilities	**34,061**	72,490	46,385
Deferred rent	**4,825**	4,773	4,449
Other liabilities	**1,159**	1,188	—

Total liabilities		**40,045**		78,451		50,834
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 - $.0001 par value, 90,000 shares authorized, 26,201, 26,135 and 25,846 shares issued, 17,939, 17,873 and 17,584 outstanding		**3**		3		3
Additional paid-in capital		**138,605**		137,362		132,036
Retained earnings		**203,834**		197,257		171,315
Other comprehensive loss:						
Unrealized loss on marketable securities (net of taxes)		**(358)**		(396)		(263)
Treasury stock – 8,262, 8,262 and 8,262 shares at cost		**(127,984)**		(127,984)		(127,984)
Total Stockholders' Equity		**214,100**		206,242		175,107
Total Liabilities and Stockholders' Equity	**$**	**254,145**	**$**	284,693	$	225,941

See accompanying notes to condensed consolidated financial statements - unaudited 1

STEVEN MADDEN, LTD. AND SUBSIDIARIES

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

	Three Months Ended March 31,	
	2009	**2008**
Net sales	**$ 107,429**	$ 100,539
Cost of sales	**63,942**	60,324
Gross profit	**43,487**	40,215
Commission and licensing fee income - net	**2,905**	3,356
Operating expenses	**(36,088)**	(40,734)
Income from operations	**10,304**	2,837
Interest and other income - net	**396**	526
Income before provision for income taxes	**10,700**	3,363
Provision for income taxes	**4,123**	1,311
Net income	**$ 6,577**	$ 2,052
Basic income per share	**$ 0.37**	$ 0.10
Diluted income per share	**$ 0.37**	$ 0.10
Basic weighted average common shares outstanding	**17,889**	20,045
Effect of dilutive securities - options/restricted stock	**83**	219
Diluted weighted average common shares outstanding	**17,972**	20,264

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,	
	2009	**2008**
Cash flows from operating activities:		
Net income	**$ 6,577**	$ 2,052
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	**2,411**	2,356
Loss on disposal of fixed assets	**519**	154
Deferred taxes	**24**	(40)
Non-cash compensation	**1,243**	2,094
Provision for doubtful accounts and chargebacks	**(2,286)**	(3,089)
Deferred rent expense	**(114)**	979
Realized loss on sale of marketable securities	**37**	534
Changes in:		
Accounts receivable	**(1,399)**	2,335
Due from factor	**(5,793)**	(10,523)
Inventories	**3,526**	790
Prepaid expenses, prepaid taxes, deposits and other assets	**2,636**	(2,239)
Accounts payable and other accrued expenses	**(3,556)**	2,572
Net cash provided by (used in) operating activities	**3,825**	(2,040)
Cash flows from investing activities:		
Purchases of property and equipment	**(1,182)**	(2,286)
Purchases of marketable securities	**(81)**	(282)
Sale/redemption of marketable securities	**5,779**	47,207
Acquisition, net of cash acquired *	**(4,526)**	(4,923)
Net cash (used in) provided by investing activities	**(10)**	39,716
Cash flows from financing activities:		
Repayment of advances from factor	**(30,168)**	—
Proceeds from exercise of stock options	**—**	14
Excess tax benefit from the exercise of options	**—**	15
Common stock purchased for treasury	**—**	(44,200)

Net cash used in financing activities		**(30,168)**		(44,171)
Net decrease in cash and cash equivalents		**(26,353)**		(6,495)
Cash and cash equivalents - beginning of period		**89,588**		29,446
Cash and cash equivalents - end of period	**$**	**63,235**	$	22,951

* The amount for 2009 was accrued at December 31, 2008. The amount for 2008 includes $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, 2009
($ 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, 2009 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, 2008 included in the Annual Report of Steven Madden, Ltd. on Form 10-K filed with the SEC on March 12, 2009.

Note B – Use of Estimates

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

Significant areas involving management estimates include allowances for bad debts, returns and customer chargebacks, and deferred tax asset valuation allowance. The Company provides reserves on trade accounts receivables and due from factors 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 - Due To and From Factor

Under the terms of its factoring agreement with GMAC Commercial Finance LLC ("GMAC"), as amended, the Company may request advances from the factor of up to 85% of aggregate receivables factored by GMAC. In November of 2008, the Company borrowed the maximum amount allowed by the terms of the agreement. As of December 31, 2008, the Company had advances payable due to GMAC of $30,168 against gross factored receivables of $44,082. Subsequent to the year end, the Company began reducing the loan balance with the proceeds from the collections of factored accounts receivable, and as of February 17, 2009, the loan was completely paid off. The interest rate on the advances, which has changed from time to time by amendments to the agreement and which is currently a variable rate based on the 30-day London Interbank Offered Rate (LIBOR), averaged 3.9% through the date of repayment. Effective January 1, 2009, the factoring agreement was amended so that the Company retained title to its factored accounts receivable, which would keep its outstanding receivables from being the property of GMAC.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
March 31, 2009
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Note E - 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 satisfy a personal tax obligation resulting from the exercise of 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. A second amendment dated April 1, 2009 changed the interest rate to 6% and extended the due date of both principal and interest to June 30, 2015. As of March 31, 2009, $430 of interest has accrued on the note and has been reflected on the Company's Condensed Consolidated Financial Statements. 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 F - Marketable Securities

Marketable securities consist primarily of corporate and municipal bonds and U.S. treasury notes 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.

As of March 31, 2008, the Company held $16,070 in auction rate securities ("ARS"). In the first quarter of 2008, the liquidity in the ARS market evaporated causing the ARSs to fail at auction and accordingly, the auction rate securities were classified as long term as of March 31, 2008. As a result of the lack of liquidity in the ARS market, the Company recorded an unrealized loss on its ARSs of $230 for the three months ended March 31, 2008. During the months of June through December of 2008, the Company was able to liquidate its entire portfolio of ARSs at full face value, and as a result, the Company did not hold any ARSs as of December 31, 2008. The Company did not incur any losses with respect to its investments in ARSs and hence, the unrealized loss of $230 was reversed in the second quarter of 2008.

Note G – Fair Value Measurement

In September 2006, the Financial Accounting Standards Board ("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 and adopted it for all other assets and liabilities in the first quarter of 2009. 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.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
March 31, 2009
($ in thousands except share and per share data)

Note G – Fair Value Measurement (continued)

The Company’s financial assets subject to fair value measurements as of March 31, 2009 are as follows:

		Fair Value Measurements Using Fair Value Hierarchy		
	Fair value	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 63,235	$ 63,235	—	—
Current marketable securities – available for sale	13,002	13,002	—	—
Long-term marketable securities – available for sale	16,393	16,393	—	—
Total	$ 92,630	$ 92,630	—	—

During the quarter ended March 31, 2009, the Company had no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3). As of March 31, 2009, 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.

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

Note H - 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 I – 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 J - Revenue Recognition

The Company recognizes revenue on wholesale sales when products are shipped pursuant to its standard terms which are freight on board (FOB) warehouse or when products are delivered to the consolidators as per the terms of the customers’ purchase order. Sales reductions for anticipated discounts, allowances and other deductions are recognized during the period when sales are recorded. Customers retain the right to replacement of the product for poor quality or improper or short shipments, which have historically been immaterial. Retail sales are recognized when the payment is received from customers and are recorded net of returns. The Company also generates commission income acting as a buying agent by arranging to manufacture private label shoes to the specifications of its clients. The Company’s commission 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 are reported on a net basis after deducting related operating expenses.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
March 31, 2009
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Note J - Revenue Recognition (continued)

The Company licenses its trademarks for use in connection with the manufacturing, marketing and sale of cold weather accessories, sunglasses, eyewear, outerwear, bedding and hosiery. The license agreements require the licensee to pay the Company a royalty and, in substantially all of the agreements, an advertising fee based on the higher of a minimum or a net sales percentage as defined in the various agreements. In addition, under the terms of retail selling agreements, most of the Company's international distributors are required to pay the Company a royalty based on a percentage of net sales, in addition to a commission on the purchases of the Company's products. Licensing revenue is recognized on the basis of net sales reported by the licensees and international distributors, or the minimum guaranteed royalties, if higher. In substantially all of the Company's license agreements, the minimum guaranteed royalty is earned and payable on a quarterly basis.

Note K – 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 L – 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 Income as deductions to net sales. For the three-month periods ended March 31, 2009 and 2008, the total deduction to net sales for these expenses was $5,154 and $7,631, respectively.

Note M – Cost of Sales

All costs incurred to bring finished products to the Company's distribution center and, in the Retail segment, the costs to bring products to the Company's stores, are included in the cost of sales line on the Condensed Consolidated Statement of Income. 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 segment and freight to customers, if any, are included in the operating expenses line item of the Company's Condensed Consolidated Statement of Income. 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 N - 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, 2009 and 2008, approximately 255,000 and 66,000 stock options, respectively, have been excluded from the calculation because inclusion of such shares would be antidilutive. For the quarters ended March 31, 2009 and 2008, the unvested restricted stock awards were dilutive.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
March 31, 2009
($ in thousands except share and per share data)

Note O - 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. On April 6, 2009, subject to shareholder approval, the Board of Directors adopted a second amendment to the plan that increased the maximum number of shares that may be issued under the Plan to 4,064,000. 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, including restricted stock and stock options, granted net of expired or cancelled	1,095,000
Common Stock available for grant of stock based awards as of March 31, 2009	455,000

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

		2009		2008
Restricted stock	**$**	**1,053**	$	2,082
Stock options		**190**		12
Total	**$**	**1,243**	$	2,094

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

Equity-based compensation is included in operating expenses on the Company's Condensed Consolidated Statements of Income. There were no options exercised during the three months ended March 31, 2009, hence the Company did not realize a tax benefit from the exercise of stock options during the period, however, the Company did realize a tax benefit of $15 in the same period of last year.

Stock Options

There were no options exercised during the three months ended March 31, 2009 compared to 3,000 options exercised with a total proceeds of $14 and a total intrinsic value of $39 during the corresponding period of last year. During the three months ended March 31, 2009, 16,000 options vested with a weighted average exercise price of $17.42, and no options vested during the same period of last year. As of March 31, 2009, there were 401,000 unvested options with a total unrecognized compensation cost of $2,212 and an average vesting period of 3.4 years. On April 29, 2008, 100,000 options were granted to the Company's founder and Creative and Design Chief.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
March 31, 2009
($ in thousands except share and per share data)

Note O - Stock-Based Compensation (continued)

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 2009 and 2008 was approximately $7.37 and $5.70, respectively, using the Black-Scholes option-pricing model with the following assumptions:

	2009	**2008**
Volatility	51% to 52%	42% to 43%
Risk free interest rate	1.39% to 1.57%	2.32% to 2.68%
Expected life in years	4	4
Dividend yield	0	0

Activity relating to stock options granted under the Company's plans and outside the plans during the three months ended March 31, 2009 is as follows:

	Number of Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Outstanding at January 1, 2009	**772,000**	**$ 16.18**		
Granted	**32,000**	**$ 18.05**		
Exercised	**—**	**—**		
Cancelled/Forfeited	**—**	**—**		
Outstanding at March 31, 2009	**804,000**	**$ 16.25**	**4.6 years**	**$ 2,418**
Exercisable at March 31, 2009	**403,000**	**$ 12.93**	**3.5 years**	**$ 2,269**

Restricted Stock

The following table summarizes restricted stock activity during the three months ended March 31, 2009 and 2008:

	2009		**2008**	
	Number of Shares	**Weighted Average Fair Value at Grant**	**Number of Shares**	**Weighted Average Fair Value at Grant**

		Date		Date
Non-vested at January 1	**358,000**	**$ 29.53**	507,000	$ 30.90
Granted	**—**	**—**	—	—
Vested	**(65,000)**	**$ 32.09**	(63,000)	$ 32.05
Forfeited	**(1,000)**	**$ 34.05**	(4,000)	$ 34.05
Non-vested at March 31	**292,000**	**$ 28.94**	440,000	$ 30.71

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
March 31, 2009
($ in thousands except share and per share data)

Note O - Stock-Based Compensation (continued)

As of March 31, 2009, there was $6,655 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 two years. The Company determines the fair value of its restricted stock awards based on the market price of its common stock on the date of grant. During the three-month periods ended March 31, 2009 and 2008, the Company did not realize any tax benefits from the vesting of restricted stock.

Note P – Acquisitions

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 and on March 31, 2008, the 2007 earn-out provision was finalized at $4,923, which increased the total acquisition cost to $23,686. On December 31, 2008, a preliminary earn-out provision for 2008 of $6,632 was charged to goodwill which increased the total acquisition cost to $30,318. On March 31, 2009, the parties agreed to a tentative 2008 earn-out provision of $6,530, and accordingly, goodwill was reduced by $102 bringing the total acquisition cost to $30,216. Approximately 9% of the final payment was withheld as a reserve against contingencies.

The Daniel M. Friedman acquisition was accounted for using the purchase method of accounting as required by SFAS Statement No. 141, "Business Combinations". Accordingly, the assets and liabilities of Daniel M. Friedman were adjusted to their fair values, and the excess of the purchase price over the fair value of the assets acquired, including identified intangible assets, was recorded as goodwill. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. The total purchase price has been allocated as follows:

Current assets	$	9,772
Property, plant and equipment		289
Deposits		62
Intangible assets		8,400
Goodwill		16,424
Liabilities assumed		(4,731)
Net assets acquired	$	30,216

Pursuant to the acquisition, the Company had a note receivable from the former owner and namesake of Daniel M. Friedman in the amount of $1,250. The note, which had an interest rate of 5%, was due and payable on the same day that the final earn-out payment is due. The note allowed the maker to offset the principal and interest due on the note against any earn-out monies that might be due to him. On March 31, 2009, the note was offset against the final earn-out payment.

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Note Q – Goodwill and Intangible Assets

The following is a summary of the carrying amount of goodwill by segment for the three months ended March 31, 2009:

	Wholesale			Net Carrying
	Footwear	Accessories	Retail	Amount
Balance at January 1, 2009	$ 1,547	$ 16,526	$ 5,501	$ 23,574
Adjustment of purchase price - DMF	0	(102)	0	(102)
Balance at March 31, 2009	$ 1,547	$ 16,424	$ 5,501	$ 23,472

The following table details identifiable intangible assets as of March 31, 2009:

	Estimated lives	Cost basis	Accumulated Amortization	Net Carrying Amount
Trade name	6 years	$ 200	$ 107	$ 93
Customer relationships	10 years	6,400	1,543	4,857
License agreements	3-6 years	5,600	3,376	2,224
Non-compete agreement	5 years	930	387	543
Other	3 years	14	9	5
		$ 13,144	$ 5,422	$ 7,722

The estimated future amortization expense of purchased intangibles as of March 31, 2009 is as follows:

2009 (remaining nine months)	$ 1,394
2010	1,856
2011	1,381
2012	642
2013	642
Thereafter	1,807
	$ 7,722

Note R – Comprehensive Income

Comprehensive income for the three-month periods ended March 31, 2009 and 2008, after considering other comprehensive income (loss) including unrealized gain (loss) on marketable securities of $38 and $(202), was $6,615 and $1,850, respectively.

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Note S - 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. The adoption of SFAS No. 141R did not have a material impact on our Condensed Consolidated Financial Statements as there were no business combinations.

In April 2009, the FASB issued FSP No. 141R-1 “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies” (“FSP 141R-1”). FSP 141R-1 amends the provisions in FASB Statement No. 141R for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. FSP 141R-1 eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in Statement 141R and instead carries forward most of the provision in SFAS 141 for acquired contingencies. FSP 141R-1 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after December 15, 2008. We do not expect that FSP 141R-1 will have an impact on our Condensed Consolidate Financial Statements.

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 Condensed 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. The adoption of SFAS No. 160 did not have a material impact on our Condensed Consolidated Financial Statements.

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

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

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Note T - 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 that the Company treated as "buying agents' commissions" (which are non-dutiable) should be treated as "selling agents' commissions" and hence are dutiable. 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, evaluated the liability in the case, including interest and penalties, and believes that it is not likely to exceed $2,700. Therefore, as of December 31, 2007, the Company had recorded a total reserve of $2,700 that was increased by $256 in the fourth quarter of 2008 to reflect anticipated additional interest costs, bringing the reserve to $2,956 as of December 31, 2008. 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 U – Operating Segment Information

The Company operates the following business segments: Wholesales Footwear, Wholesale Accessories, Retail, First Cost and Licensing. The Wholesale Footwear segment, through sales to department and specialty stores worldwide, derives revenue from sales of branded women's, men's, girl's and children's footwear. The Wholesale Accessories segment, which includes branded and private label handbags, belts and small leather goods, derives revenues from sales to department and specialty stores worldwide. The Retail segment, through the operation of Company owned retail stores and the Company's website, derives revenue from sales of branded women's, men's and children's footwear and accessories. 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 footwear. In the License segment, the Company licenses its Steve Madden and Steven trademarks for use in connection with the manufacturing, marketing and sale of cold weather accessories, sunglasses, eyewear, outerwear, bedding and hosiery.

Candies has been transitioned from a "wholesale" model to a "first cost" model, and therefore revenues for the first quarter of 2009 are included in First Cost segment. As a result of this change, in the first quarter of 2009, net sales in the Wholesale Footwear segment does not reflect Candies revenue while net sales in the first quarter of 2008 reflected revenue of $4,852 for the Candies business.

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Note U – Operating Segment Information (continued)

Quarter ended,	Wholesale Footwear	Wholesale Accessories	**Total Wholesale**	**Retail**	**First Cost**	**Licensing**	**Consolidated**
March 31, 2009:							
Net sales to external customers	$ 65,201	$ 16,084	**$ 81,285**	**$ 26,144**			**$ 107,429**
Gross profit	25,802	5,176	**30,978**	**12,509**			**43,487**