STEVEN MADDEN, LTD.
Form 10-Q
August 09, 2006

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 June 30, 2006

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

For the transition period from ________________ to ________________

Commission File Number 0-23702

STEVEN MADDEN, LTD.

(Exact name of Registrant as specified in its charter)

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

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

Registrant's telephone number, including area code (718) 446-1800

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [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 August 3, 2006, the latest practicable date, there were 20,710,076 shares of common stock, $.0001 par value, outstanding.

STEVEN MADDEN, LTD.
FORM 10-Q
QUARTERLY REPORT

June 30, 2006

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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)

	June 30, 2006 (unaudited)	December 31 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,463	$ 42,84
Accounts receivable, net of allowances of $2,430, $813 and $632	7,171	3,29
Due from factor, net of allowances of $10,731, $7,587 and $4,386	50,997	31,78
Inventories	43,075	28,41
Marketable securities - available for sale	32,538	24,09

Prepaid expenses and other current assets	5,598	2,43
Prepaid taxes	3,565	2,51
Deferred taxes	5,550	5,60
Total current assets	182,957	140,97
Property and equipment, net	21,290	20,89
Deferred taxes	5,526	5,56
Deposits and other	1,086	58
Marketable securities - available for sale	23,628	42,15
Goodwill - net	7,007	1,54
Intangibles - net	7,829	-
Total Assets	$ 249,323	$ 211,72
LIABILITIES		
Current liabilities:		
Accounts payable	$ 24,334	15,57
Accrued expenses	20,737	11,32
Total current liabilities	45,071	26,90
Deferred rent	3,438	2,75
	48,509	29,66
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, 24,410, 24,225 and 23,165 shares issued, 20,710, 20,874 and 19,814 outstanding	2	
Additional paid-in capital	114,599	99,95
Retained earnings	132,394	108,83
Unearned compensation	(11,318)	-
Other comprehensive gain:		
Unrealized gain (loss) on marketable securities	(1,173)	(1,29
Treasury stock - 3,700, 3,351 and 3,351 shares at cost	(33,690)	(25,42
	200,814	182,06
Total Liabilities and Stockholders' Equity	$ 249,323	$ 211,72

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 June 30,	
	2006	2005
Net sales:		
Wholesale	$ 96,194	$ 68,331
Retail	33,306	32,627
	129,500	100,958
Cost of sales:		
Wholesale	59,637	46,978
Retail	15,308	16,370
	74,945	63,348
Gross profit:		
Wholesale	36,557	21,353
Retail	17,998	16,257
	54,555	37,610
Commission and licensing fee income - net	2,825	1,799
Operating expenses	(36,065)	(30,233)
Impairment of goodwill	--	(519)
Income from operations	21,315	8,657
Interest and other income, net	642	456
Income before provision for income taxes	21,957	9,113
Provision for income taxes	9,261	3,827
Net income	$ 12,696	$ 5,286
Basic income per share	$ 0.61	$ 0.27
Diluted income per share	$ 0.58	$ 0.26
Basic weighted average common shares outstanding	20,794	19,613
Effect of dilutive securities - options/warrants/restricted stock	1,236	601
Diluted weighted average common shares outstanding	22,030	20,214

See accompanying notes to condensed consolidated financial statements - unaudited 2

STEVEN MADDEN, LTD. AND SUBSIDIARIES

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

	Six Months June 3
	2006
Cash flows from operating activities:	
Net income	$ 23,556
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization	3,182
Loss on disposal of fixed assets	1,743
Impairment of goodwill	--
Non-cash compensation	708
Provision for bad debts	4,761
Deferred rent expense	171
Realized loss on marketable securities	628
Changes in:	
Accounts receivable	(3,971)
Due from factor	(20,796)
Inventories	(8,780)
Prepaid expenses, prepaid taxes, deposits and other assets	(2,915)
Accounts payable and other accrued expenses	9,187
Net cash provided by operating activities	7,474
Cash flows from investing activities:	
Purchase of property and equipment	(4,448)
Purchase of marketable securities	(2,858)
Sale/redemption of marketable securities	12,530
Acquisition, net of cash acquired	(15,436)
Net cash provided by (used in) investing activities	(10,212)
Cash flows from financing activities:	
Proceeds from options exercised	1,882
Tax benefit from exercise of options	741
Cash in lieu of restricted stock	--
Common stock purchased for treasury	(8,264)
Net cash used in financing activities	(5,641)
Net increase (decrease) in cash and cash equivalents	(8,379)
Cash and cash equivalents - beginning of period	42,842

Cash and cash equivalents - end of period	$ 34,463

See accompanying notes to condensed consolidated financial statements - unaudited 3

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
June 30, 2006
($ in thousands except 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 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 six-month periods ended June 30, 2006 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, 2005 included in the Annual Report of Steven Madden, Ltd. on Form 10-K filed with the SEC on March 14, 2006.

Stock Split

On April 27, 2006, the Board of Directors declared a 3-for-2 stock split of its outstanding shares of common stock, to be effected in the form of a stock dividend of one share of stock for every two shares outstanding. The dividend was paid on May 26, 2006 to stockholders of record at the close of business on May 11, 2006. All share and per share data provided herein gives effect to this stock split, applied retroactively.

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.

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. As a result of a reevaluation of the retail environment, the Company has revised its method for evaluating its estimate of the allowance for customer chargebacks beginning in the fourth quarter of 2005. In the past, the Company looked at historical dilution levels of customers to determine the allowance amount. Under the new

method of estimation, 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 to estimate the amount of the anticipated customer allowance.

NOTE C - MARKETABLE SECURITIES

Marketable securities consist primarily of corporate 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 are included in interest income and are not material. The values of these securities may fluctuate as a result of changes in market interest rates and credit risk.

NOTE D - 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.

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STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
June 30, 2006
($ in thousands except per share data)

NOTE E - REVENUE RECOGNITION

The Company recognizes revenue on wholesale sales when products are shipped pursuant to our 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 earns commission income acting in the capacity of an agent through its Adesso-Madden Division by arranging to produce private label shoes to the specifications of its clients. In addition, the Company has leveraged the strength of its Steve Madden brands and product designs resulting in a partial recovery of its design, product and development costs from its suppliers. 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 sunglasses, eyewear, outerwear, watches, children's apparel and hosiery products. Each license agreement requires the licensee to pay to the Company a royalty and advertising fee based on the higher of a minimum or a net sales percentage as defined in the various agreements. Licensing revenue is recognized on the basis of net sales reported by the licensees or 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 F - 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 six-month periods ended June 30, 2006, the total deduction to sales for these expenses was $7,338 and $15,304, respectively, as compared to $9,223 and $17,739 for the comparable periods in 2005.

NOTE G - COST OF SALES

All costs incurred to bring finished products to the Company's distribution center are included in the cost of sales line item on the Condensed Consolidated Statement of Operations. These include 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 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 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 H - RECLASSIFICATION

The Company has reclassified royalty payments on its Condensed Consolidated Statement of Operations from operating expenses to cost of sales. This reclassification resulted in an increase in the wholesale cost of sales for the three- and six-months ended June 30, 2006 of $360 and $1,239 respectively, and $900 and $1,866 for the comparable periods in 2005, with a corresponding decrease to operating expenses in the same periods. This reclassification had no impact on the net income of the Company.

Revision in the Classification of Auction Rate Bonds. During the first quarter of 2006, the Company revised its presentation of its auction rate bonds to short-term investments. Previously, such investments had been classified as cash and cash equivalents. Accordingly, the Company has revised the classification to report these securities as short-term investments on its Consolidated Balance Sheet as of December 31, 2005. As previously reported at December 31, 2005, $10,000 of these auction rate municipal bonds were classified as cash and cash equivalents on the Company's Consolidated Balance Sheet.

NOTE I - 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 granted to employees that have a dilutive effect. For both the three- and six-month periods ended June 30, 2006, no stock options have been excluded from the calculation because inclusion of such shares would be anti-dilutive, as compared to approximately 1,922,000 and 1,863,000 shares excluded respectively for the three- and six-months ended June 30, 2005.

NOTE J - 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. Management believes that the Plan will better align the interests of its recipients with those of its shareholders. In addition, the Company has three stock option plans entitled The 1996 Stock Plan, The 1997 Stock Plan and The 1999 Stock Plan. The option plans provide that the option price shall not be less than the fair market value of the common stock on the date of grant and that no portion of the option may be exercised beyond ten years from that date. As of June 30, 2006, 6,893,000 options have been authorized under the three stock option plans and 6,885,000 have been granted, net of expirations and cancellations.

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, "Accounting for Stock-Based Compensation" ("SFAS No. 123R"), which requires stock-based compensation to be measured based on the fair value of the awards on the grant date. The Company elected the "modified prospective method" of transition as permitted by SFAS No. 123R. Under this transition method, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that were outstanding at the date of adoption, and accordingly, periods prior to adoption are not restated. For the three- and six-month periods ended June 30, 2006, total equity-based compensation of $648 and $708, respectively, was included in operating expense. As of June 30, 2006, unrecognized equity-based compensation was $11,318, which is expected to be recognized over a weighted average period of 4 years.

SFAS No. 123R requires the Company to apply an estimated forfeiture rate in calculating the period expense, as opposed to recognizing forfeitures as an expense reduction as they occur, which was the method used by the Company prior to adoption. The adjustment to apply estimated forfeitures to previously recognized stock-based compensation was considered immaterial and, as such, was not classified as a cumulative effect of a change in accounting principle.

Prior to the adoption of SFAS No. 123R, the Company presented cash flows resulting from the tax benefits of deductions from the exercise of stock options as operating cash flows in the Statements of Cash Flows. SFAS No. 123R requires cash flows resulting from the tax benefits from tax deductions in excess of the compensation costs recognized for those options (tax benefits) to be classified as financing cash flows. The Company realized a tax benefit from the exercise of stock options of $741 during the six months ended June 30, 2006.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
June 30, 2006
($ in thousands except per share data)

NOTE J - STOCK-BASED COMPENSATION (CONTINUED)

Prior to adopting SFAS No. 123R, the Company's equity-based compensation expense was accounted for under the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees", as permitted by SFAS No. 123. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provision of SFAS No. 123R to equity-based employee compensation for the three- and six- month periods ended June 30, 2005:

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Reported net income	$ 5,286	$ 6,248
Stock-based employee compensation included in reported net income, net of tax	83	165
Stock-based employee compensation determined under the fair value based method, net of tax	(499)	(1,038)
Pro forma net income	$ 4,870	$ 5,375
Basic income per share:		
As reported	$ 0.27	$ 0.32
Pro forma	$ 0.26	$ 0.31
Diluted income per share:		
As reported	$ 0.25	$ 0.27
Pro forma	$ 0.24	$ 0.26

Stock Options

During the three- and six-months ended June 30, 2006, there were 27,500 and 155,000 options exercised, respectively, with a total intrinsic value of $585 and $1,764 for the corresponding periods. During the three- and six-months ended June 30, 2006, 15,000 and 30,000 options vested, respectively, all of which had a weighted average exercise price of $11.84. As of June 30, 2006, there were no unvested options. There were no options granted during the six months ended June 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 historical experience of similar awards. Expected volatility is based on the historical volatility of the Company's stock. The risk free interest rate is based on the U.S Treasury yield curve in effect at the time of the grant. With the exception of a special dividend paid in November of 2005, the Company does not pay dividends, and thus the expected dividend rate is assumed to be zero. The weighted average fair value of options granted in 2005 was approximately

$4.07 using the Black-Scholes option-pricing model assuming a volatility of 43%, a risk free interest rate of 3.86%, an expected life of 3 years and no dividend yield.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
June 30, 2006
($ in thousands except per share data)

NOTE J - STOCK-BASED COMPENSATION (CONTINUED)

Activity relating to stock options granted under the Company's plans and outside the plans during the six-months ended June 30, 2006 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggre Intri Val
Outstanding at January 1	1,950,000	$ 9.79		
Granted	--	--		
Exercised	(155,000)	12.14		
Cancelled/Forfeited	(3,000)	8.00		
Outstanding at June 30	1,792,000	$ 9.58	5.5	$ 3
Exercisable at June 30	1,792,000	$ 9.58	5.5	$ 3

Restricted Stock

During the six months ended June 30, 2006, pursuant to the Company's Board of Directors approval of the Plan in March 2006, the Company granted 394,200 restricted stock shares to employees and directors (including 165,000 granted to the Company's Creative and Design Chief), all of which were outstanding as of June 30, 2006. 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. The weighted average grant date fair value of the restricted shares was $32.02 and the average vesting period is 4.2 years. There were no shares that vested during the quarter ended June 30, 2006.

NOTE K - ACQUISITION

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 consideration of $18,742 including transaction costs subject to adjustment, including certain earn out provisions based on financial performance through 2010.

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 preliminary purchase price has been allocated as follows:

Current assets	$ 9,772
Property, plant and equipment	289
Deposits	62
Intangible assets	8,400
Goodwill	5,460
Liabilities assumed	(5,241)
Net assets acquired	$ 18,742

NOTE K - ACQUISITION (CONTINUED)

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

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 three- and six-month periods below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net sales	$ 129,500	$ 110,743	$ 240,500	$ 201,730
Operating income	$ 21,315	$ 9,986	$ 39,949	$ 12,433
Net income	$ 12,696	$ 6,023	$ 23,660	$ 7,667
Basic earnings per share	$ 0.61	$ 0.31	$ 1.14	$ 0.39
Diluted earnings per share	$ 0.58	$ 0.30	$ 1.08	$ 0.37

NOTE L - GOODWILL AND INTANGIBLE ASSETS

The following is a summary of goodwill and the related accumulated amortization

for the six-months ended June 30, 2006:

	Cost basis	Accumulated Amortization	Net carrying amount
Balance at December 31, 2005	$ 2,145	$ 598	$ 1,547
Acquisition of Daniel M. Friedman	5,460	0	5,460
Balance at June 30, 2006	$ 7,605	$ 598	$ 7,007

The following table details identifiable intangible assets acquired on February 7, 2006 in the Daniel M. Friedman transaction as of June 30, 2006:

	Cost basis	Accumulated Amortization	Net carrying amount
Trade name	$ 200	$ 14	$ 186
Customer relationships	2,600	109	2,491
License agreements	5,600	448	5,152
	$ 8,400	$ 571	$ 7,829

NOTE L - GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

The estimated future amortization expense of purchased intangibles as of June 30, 2006 is as follows:

2006 (remaining six months)	$ 685
2007	1,370
2008	1,370
2009	1,267
2010	1,267
Thereafter	1,870
	$ 7,829

NOTE M - COMPREHENSIVE INCOME

Comprehensive income for the three- and six-month periods ended June 30, 2006, after considering other comprehensive income including unrealized gain (loss) on marketable securities of $(100) and $126, was $12,596 and $23,682, respectively. For the comparable periods ended June 30, 2005, after considering other comprehensive gains (losses) on marketable securities of $163 and $(167), comprehensive income was $5,449 and $6,081, respectively.

NOTE N - RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2006, the Financial Accounting Standards Board ("FASB") issued 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. FIN 48 also provides guidance on classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is evaluating the requirements of FIN 48 and expects that its adoption will not have a material impact on the Company's results of operations and earnings per share

NOTE O - COMMITMENTS, CONTINGENCIES AND OTHER

[1] Legal proceedings:

(a) On July 28, 2005, adidas America, Inc., and adidas-Salomon AG (together, "adidas") filed a Demand for Arbitration (the "Demand") against Steve Madden, Ltd., and Steve Madden Retail, Inc. before the American Arbitration Association. In its Demand, adidas alleged that the parties had previously been engaged in a lawsuit over the Company's sale of sneakers that allegedly infringed adidas' "three stripe" mark. The parties settled that lawsuit by entering into a settlement agreement dated August 4, 2003 that prohibited the Company from selling shoes that contained adidas' "three-stripe" mark either with one additional stripe or with one less stripe. Adidas alleged in the Demand that the Company was selling three shoes that adidas contends violate the settlement agreement and infringe adidas' "three-stripe" mark. The parties are actively engaged in settlement discussions and have reached a tentative settlement. Settlement drafts have been exchanged but are still being negotiated. The settlement will not have a material affect on the Company's financial position.

(b) On August 10, 2005, the U.S. Customs Department ("Customs") issued a report that asserts that certain commissions which the Company treated as buying agents' commissions (which are non-dutiable), should be treated as "selling agents' commissions" and hence are dutiable. In the report, Customs estimates that the Company had underpaid duties during the calendar years of 1998 through 2004 in the amount of $1,051 plus interest and penalties. Based on management's estimation at this point, a reserve of $2,047 covering under-payments, interest and penalties, has been recorded as of March 31, 2006 in the Condensed Consolidated Financial Statements. Such reserve may in the future be modified to reflect the status of this matter.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
June 30, 2006
($ in thousands except per share data)

NOTE O - COMMITMENTS, CONTINGENCIES AND OTHER (CONTINUED)

(c) On or about January 23, 2006, the Company and Steven Madden, Jamieson Karson, Arvind Dharia and Amelia Newton Varela were named as defendants in a lawsuit filed by Jojeli, Inc. ("Jojeli") and Alan Rick Friedman in the United States District Court for the Southern District of New York. In their complaint, Jojeli and Mr. Friedman assert claims arising from the Company's decision to terminate Jojeli's services on or about November 28, 2005. Mr. Friedman, Jojeli's principal, served as a senior salesperson for the Company, and provided his services to the Company pursuant to an April 26, 2004 written agreement. In their complaint, Jojeli and Mr. Friedman allege eight claims against the Company and/or three of its executives and/or one of its managers, including breach of contract, violation of the New York Labor Law, tortuous interference with contract, civil conspiracy, defamation, and prima facie tort. They seek damages on their various claims of approximately $2,700 and they also seek a declaration that they are not bound by the restrictive covenant in the parties' contract. On or about March 1, 2006, the individual defendants and the Company moved to dismiss the tort claims contained in the complaint and to strike Mr. Friedman's claim for punitive damages in connection with his contract claims. More specifically, the defendants moved to dismiss the claims alleging defamation, interference with contract, prima facie tort and civil conspiracy. If the motion is granted in its entirety, the individual defendants would be dismissed from the suit and Mr. Friedman's remaining claims would consist of breach of contract and alleged violations of the New York Labor Law. On or about April 13, 2006, Mr. Friedman filed an amended complaint in the action. In his amended complaint, Mr. Friedman (i) dropped his defamation claim against the Company's Executive Vice President of Wholesale Sales, Amelia Newton Varela, (ii) dropped all claim(s) against the Company's Chief Financial Officer, Arvind Dharia, and (iii) supplemented certain allegations concerning the remaining defendants in an effort to strengthen or preserve his remaining tort claims. On June 5, 2006, the Court dismissed the plaintiffs' tort claims against the Company and the remaining individual defendants. More specifically, the Court dismissed Mr. Friedman's tortuous interference and conspiracy claims against Mr. Karson, Mr. Madden and Ms. Newton, and it dismissed Mr. Friedman's prima facie tort claim against Mr. Karson, Mr. Madden and the Company. On or about June 28, 2006, the Company and the individual defendants filed an answer in which they denied the remaining counts of the Amended Complaint, which consist of claims for breach of contract, breach of the implied covenant of good faith and fair dealing, and for violations of certain provisions of the New York Labor Law. On June 30, 2006, the parties appeared before the court for a status conference at which time the Court established a pre-trial schedule requiring that non-expert discovery be completed by December 29, 2006 and that dispositive motions be filed by February 2, 2007. Accordingly, the parties are currently engaged in discovery. The Company believes that this action will not have a material effect on the Company's financial position.

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

[2] License Agreements:

On May 11, 2006, the Company entered into an agreement to license the Stevies brand for the design, manufacture and distribution of a line of girls' apparel, which will be sold exclusively through J.C. Penney. On June 21, 2006, the Company entered into an agreement to license the Steve Madden and Steven by Steve Madden brands for the design, manufacture and distribution of watches. Both of these agreements require the licensees to pay the Company a royalty based on net sales and a minimum royalty in the event that specified net sales targets are not achieved.

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STEVEN MADDEN, LTD. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited
June 30, 2006
($ in thousands except per share data)

NOTE P - 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, girls' 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 to mass-market merchandisers, shoe chains and other off-price retailers with respect to their purchase of footwear.

Quarter ended,	Wholesale	Retail	First Cost	Consolidate
June 30, 2006:				
Net sales to external customers	$ 96,194	$ 33,306		$ 129,50
Gross profit	36,557	17,998		54,55
Commissions and licensing fees - net	721		$ 2,104	2,82
Income from operations	17,109	2,102	2,104	21,31
Segment assets	$ 190,920	$ 42,905	$ 15,498	$ 249,32
June 30, 2005:				
Net sales to external customers	$ 68,331	$ 32,627		$ 100,95
Gross profit	21,353	16,257		37,61
Commissions and licensing fees - net	596		$ 1,203	1,79

	Wholesale	Retail	First Cost	Consolidate
Income from operations	5,971	1,483	1,203	8,65
Segment assets	$ 142,436	$ 43,070	$ 11,924	$ 197,43

Six months ended,	Wholesale	Retail	First Cost	Consolidate
June 30, 2006:				
Net sales to external customers	$ 179,176	$ 58,639		$ 237,81
Gross profit	70,682	30,156		100,83
Commissions and licensing fees - net	1,526		$ 5,061	6,58
Income from operations	33,738	971	5,061	39,77
Segment assets	$ 190,920	$ 42,905	$ 15,498	$ 249,32
June 30, 2005:				
Net sales to external customers	$ 125,192	$ 59,102		$ 184,29
Gross profit	36,773	28,189		64,96
Commissions and licensing fees - net	1,176		$ 1,848	3,02
Income from operations	7,017	1,013	1,848	9,87
Segment assets	$ 142,436	$ 43,070	$ 11,924	$ 197,43

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)

For the quarter ended June 30, 2006, diluted earnings per share increased 123% to $0.58 from $0.26 for the same period in 2005. Net income increased 140% in the second quarter of 2006 to $12,696 as compared to $5,286 for the comparable period of 2005. These increases represent the fifth consecutive quarter that the Company has achieved a double-digit percentage increase in both earnings per share and net income. The Company accomplished this earnings growth by executing its two pronged strategy of expanding and strengthening its product offerings

while improving the overall operating efficiencies of the Company.

The Company is expanding its product offerings though acquisitions, the addition of new brands and via licensing agreements. 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 (a former licensee of the Company) is a manufacturer and distributor of name brand fashion handbags and accessories. In the second quarter of 2006, which was its first full quarter under the Company's ownership, Daniel M. Friedman contributed net sales of approximately $17,300. The Company has recently added, or is in the process of adding several new brands. SMNY, which began shipping product in the fourth quarter of 2005, contributed net sales of approximately $6,500, and is now in over 2,400 doors. Rule, a new brand marketed exclusively through J.C. Penney, had total net sales of approximately $3,300 in the second quarter. Two other new divisions, Natural Comfort and Jump delivered initial shipments in the second quarter of 2006. Natural Comfort is an owned brand of fashion-forward comfort footwear. Jump, sold under a distribution agreement, is a fashion sneaker line. On the licensing front, the Company signed two new licensing agreements in the quarter, one for watches under the Steve Madden and Steven by Steven Madden brands, and one for girls' apparel marketed through J.C. Penney under the Stevies brand.

The Company, through its better product offerings and improved operating efficiencies and controls has reduced close out sales, chargebacks and inbound freight costs. These initiatives have resulted in a significant increase in gross margin for the second quarter to 42% this year compared to 37% in the same quarter last year.

In the Retail Division, same store sales (sales in stores that were in operation throughout all of the second quarters of 2006 and 2005) increased 3%. This growth in comparable store sales came on top of a 13.6% comparable store sales growth achieved last year. Store sales productivity remained high with sales per square foot of $741 in the quarter. The Company's annualized inventory turnover increased to 7.8 times in the second quarter of 2006 compared to 7.5 in the second quarter of 2005. The Company's accounts receivable average collection days, excluding the newly acquired Daniel M. Friedman, improved to 57 days in the second quarter of 2006 compared to 60 days in the second quarter of the previous year.

As of June 30, 2006, the Company had $90,629 in cash, cash equivalents and marketable securities, no short or long-term debt, and total stockholders equity of $200,814. Working capital increased to $137,886 as of June 30, 2006 compared to $107,041 as of June 30, 2005. The Company repurchased 127,900 shares of common stock this quarter at a cost of approximately $3,500, reflecting management's continued confidence in the Company's long-term prospects and its commitment to enhance shareholder value.

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

Selected Financial Information
Six Months Ended
June 30
($ in thousands)

CONSOLIDATED:	2006	2005

Net sales	$	237,815	100%	$ 184,294	100%
Cost of sales		136,977	58	119,332	65
Gross profit		100,838	42	64,962	35
Other operating income - net of expenses		6,587	3	3,024	2
Operating expenses		67,655	28	57,589	31
Impairment of goodwill		--	--	519	0
Income from operations		39,770	17	9,878	6
Interest and other income, net		913	0	894	0
Income before income taxes		40,683	17	10,772	6
Net income		23,556	10	6,248	3

By Segment:

WHOLESALE DIVISION:

Net sales	$	179,176	100%	$ 125,192	100%
Cost of sales		108,494	61	88,419	71
Gross profit		70,682	39	36,773	29
Other operating income		1,526	1	1,176	1
Operating expenses		38,470	21	30,932	25
Income from operations		33,738	19	7,017	5

RETAIL DIVISION:

Net sales	$	58,639	100%	$ 59,102	100%
Cost of sales		28,483	49	30,913	52
Gross profit		30,156	51	28,189	48
Operating expenses		29,185	50	26,657	45
Impairment of goodwill		--	--	519	1
Income from operations		971	1	1,013	2
Number of stores		95		95	

FIRST COST DIVISION:

Other commission income- net of expenses	$	5,061	100%	$ 1,848	100%

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

CONSOLIDATED:		2006		2005	
Net sales	$	129,500	100%	$ 100,958	100%
Cost of sales		74,945	58	63,348	63
Gross profit		54,555	42	37,610	37
Other operating income - net of expenses		2,825	2	1,799	2
Operating expenses		36,065	28	30,233	30
Impairment of goodwill		--	--	519	0

Income from operations	21,315	16	8,657	9
Interest and other income, net	642	1	456	0
Income before income taxes	21,957	17	9,113	9
Net income	12,696	10	5,286	5

By Segment:

WHOLESALE DIVISION:

Net sales	$ 96,194	100%	$ 68,331	100%
Cost of sales	59,637	62	46,978	69
Gross profit	36,557	38	21,353	31
Other operating income	721	1	596	1
Operating expenses	20,169	21	15,978	23
Income from operations	17,109	18	5,971	9

RETAIL DIVISION:

Net sales	$ 33,306	100%	$ 32,627	100%
Cost of sales	15,308	46	16,370	50
Gross profit	17,998	54	16,257	50
Operating expenses	15,896	48	14,255	44
Impairment of goodwill	--	--	519	1
Income from operations	2,102	6	1,483	5
Number of stores	95		95	

FIRST COST DIVISION:

Other commission income- net of expenses	$ 2,104	100%	$ 1,203	100%

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RESULTS OF OPERATIONS
($ in thousands)

Six Months Ended June 30, 2006 vs. Six Months Ended June 30, 2005

Consolidated:

Total net sales for the six-month period ended June 30, 2006 increased by 29% to $237,815 from $184,294 for the comparable period of 2005. This increase resulted from significantly higher sales contributed by the Wholesale Division including Daniel M. Friedman from the acquisition date.

Gross profit as a percentage of sales increased to 42% for the six-month period ended June 30, 2006 from 35% for the six-month period ended June 30, 2005. This increase is the result of an increase in the gross profit as a percentage of sales in the Wholesale Division to 39% for the six-month period ended June 30, 2006 from 29% for the comparable period of 2005, as well as an increase in the Retail Division to 51% as compared to 48% for the comparable period of 2005.

Operating expenses increased to $67,655 in the first six months of 2006 from $57,589 in the same period of 2005. The increase in dollars is primarily due to an increase in direct selling expenses reflective of the 29% growth in sales, incentive bonuses and incremental costs associated with the new brands and the recently acquired Daniel M. Friedman. As a percentage of sales, operating

expenses decreased to 28% in the first six months of 2006 from 31% in the same period of 2005, reflecting the Company's ability to control costs and leverage its expense structure against the increase in sales.

Income from operations was $39,770 for the six-month period ended June 30, 2006 compared to $9,878 for the comparable period of 2005. Net income was $23,556 for the six-month period ended June 30, 2006 compared to $6,248 for the six-month period ended June 30, 2005. This increase in income was primarily due to the increase in sales, the higher gross margin, a substantial increase in commission income and the reduction of operating expenses as a percentage of sales.

Wholesale Division:

Sales from the Wholesale Division accounted for $179,176 or 75%, and $125,192 or 68% of total sales for the six-month periods ended June 30, 2006 and 2005, respectively. This increase resulted from the incremental sales of the recently acquired Daniel M. Friedman and higher sales from Madden Womens, Madden Mens and Candie's as well as the contribution of the new brands, SMNY and Rule. Gross profit as a percentage of sales increased to 39% for the six-month period ended June 30, 2006 from 29% in the same period last year, primarily due to a significant decrease in off-price sales and lower inventory markdowns and allowances. Operating expenses increased to $38,470 for the six-month period ended June 30, 2006 from $30,932 in the comparable period of 2005. This increase is primarily due to an increase in direct selling expenses reflective of the 43% growth in sales, incentive bonuses and the incremental costs associated with the new brands SMNY, Rule, as well as the addition of Daniel M. Friedman. As a percentage of sales, operating expenses decreased to 21% for the six-month period ended June 30, 2006 from 25% for the same period last year, reflecting the Company's ability to control costs and leverage the Company's expense structure against top line growth. Income from operations for the Wholesale Division increased to $33,738 for the six-month period ended June 30, 2006 compared to $7,017 for the six-month period ended June 30, 2005.

Retail Division:

Sales from the Retail Division accounted for $58,639 or 25% and $59,102 or 32% of total sales for the six-month periods ended June 30, 2006 and 2005, respectively. The Company opened eight new stores and closed eight under-performing stores during the year ended June 30, 2006. As a result, the Company had 95 stores as of June 30, 2006 and 2005. Comparable store sales (sales of those stores that were open for the entire first six months of 2006 and 2005) for the six-month period ended June 30, 2006 decreased 2% over the same period of 2005. This decrease was due to planned declines in the accessories and men's categories as management repositioned the Company's offerings in those areas during the first quarter of the year. Gross profit as a percentage of sales increased to 51% for the six-month period ended June 30, 2006 from 48% in the comparable period of 2005, primarily due to a significant decrease in inventory markdowns and an increase in inventory operating efficiencies. Operating expenses for the Retail Division were $29,185 for the six-month period ended June 30, 2006 and $26,657 in the comparable period of 2005. This increase was primarily due to the costs associated with the

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remodeling of six stores and the closing of five stores in the current period. Income from operations for the Retail Division was $971 for the six-month period ended June 30, 2006 compared to $1,013 for the same period in 2005.

First Cost Division:

The First Cost Division generated net commission income of $5,061 for the six-month period ended June 30, 2006, compared to $1,848 in the comparable period of 2005. The increase was the result of growth in the private label business and in addition, the Company has leveraged the strength of its Steve Madden brands and product designs resulting in a partial recovery of its design, product and development costs from its suppliers.

Three Months Ended June 30, 2006 vs. Three Months Ended June 30, 2005

Consolidated:

Total net sales for the three-month period ended June 30, 2006 increased by 28% to $129,500 from $100,958 for the comparable period of 2005. This sales growth was the result of the double-digit sales increases in the Steve Madden Womens, Madden Mens, Candies and Steven divisions as well the incremental sales from the new Daniel M. Friedman and SMNY divisions. These increases were partially offset by declines in the l.e.i and Stevies divisions.

Gross profit as a percentage of sales increased to 42% for the three-month period ended June 30, 2006 from 37% for the three-month period ended June 30, 2005. This increase is due to an increase in the Wholesale Division to 38% for the three-month period ended June 30, 2006 from 31% for the comparable period of 2005, as well as an increase in the gross profit as a percentage of sales in the Retail Division to 54% for the three-month period ended June 30, 2006 from 50% for the three-month period ended June 30, 2005.

Operating expenses increased to $36,065 in the second quarter of 2006 from $30,233 in the second quarter 2005. The increase in dollars is primarily due to an increase in direct selling expenses reflective of the 28% growth in sales, incentive bonuses and incremental costs associated with the new brands and the recently acquired Daniel M. Friedman. As a percentage of sales, operating expenses decreased to 28% in the second quarter of 2006 from 30% in the second quarter of 2005, reflecting the Company's ability to control costs and leverage its expense structure against the increase in sales.

Income from operations was $21,315 for the three-month period ended June 30, 2006 compared to $8,657 in the comparable period of 2005. Net income was $12,696 for the three-month period ended June 30, 2006 compared to $5,286 for the three-month period ended June 30, 2005. This increase in income was primarily due to the increase in sales, the higher gross margin, a substantial increase in commission income and the reduction of operating expenses as a percentage of sales.

Wholesale Division:

Sales from the Wholesale Division accounted for $96,194 or 74%, and $68,331 or 68% of total sales for the three-month periods ended June 30, 2006 and 2005, respectively. This increase resulted from the incremental sales of the recently acquired Daniel M. Friedman and higher sales from Madden Womens, Madden Mens and Candie's as well as the contribution of the new brands, SMNY and Rule. Gross profit as a percentage of sales in the Wholesale Division increased to 38% for the three-month period ended June 30, 2006 from 31% for the three-month period ended June 30 2005, primarily due to improved efficiencies in inventory management resulting in a significant reduction of inventory markdowns and allowances. Operating expenses increased to $20,169 for the three-month period ended June 30, 2006 from $15,978 in the comparable period of 2005. This increase is primarily due to an increase in direct selling expenses reflective of the 41% growth in sales, incentive bonuses and the incremental costs associated with the

new brands SMNY and Rule and Daniel M. Friedman. As a percentage of sales, operating expenses decreased to 21% for the three-month period ended June 30, 2006 from 23% for the three-month period ended June 30, 2005, reflecting the Company's ability to control costs and leverage the Company's expense structure against top line growth. Income from operations for the Wholesale Division increased to $17,109 for the three-month period ended June 30, 2006 compared to $5,971 for the same period last year.

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Retail Division:

Sales from the Retail Division accounted for $33,306 or 26% and $32,627 or 32% of total sales for the three-month periods ended June 30, 2006 and 2005, respectively. Comparable store sales (sales of those stores that were open for the second quarter of 2006 and 2005) for the three-month period ended June 30, 2006 increased 3% over the same period of 2005. Gross profit as a percentage of sales increased to 54% for the three-month period ended June 30, 2006 from 50% in the comparable period of 2005, primarily due to a significant decrease in inventory markdowns and other promotional activities. Operating expenses for the Retail Division were $15,896 for the three-month period ended June 30, 2006 and $14,255 in the comparable period of 2005. This increase was primarily due to the costs associated with the remodeling of three stores and the closing of five stores in the current period. Income from operations for the Retail Division was $2,102 for the three-month period ended June 30, 2006 compared to $1,483 for the three-month period ended June 30, 2005.

First Cost Division:

Adesso-Madden, Inc. generated net commission income of $2,104 for the three-month period ended June 30, 2006, compared to $1,203 in the comparable period of 2005. The increase was the result of growth in the private label business and in addition, the Company has leveraged the strength of its Steve Madden brands and product designs resulting in a partial recovery of its design, product and development costs from its suppliers.

LIQUIDITY AND CAPITAL RESOURCES
($ in thousands)

The Company had working capital of $137,886 at June 30, 2006 compared to $114,066 at December 31, 2005. The Company's net income for the six months ended June 30, 2006 was the primary contributor to the increase in working capital.

Under the terms of a factoring agreement with GMAC, the Company is eligible to draw down 80% of its invoiced receivables at an interest rate of two and one-half percent (2.5%) over the 30 day LIBOR. The agreement, which has no specific expiration date and can be terminated by either party with 60 days written notice after June 30, 2007, provides the Company with a $25 million credit facility with a $15 million sub-limit on direct borrowings. GMAC maintains a lien on all of the Company's receivables and assumes the credit risk for all assigned accounts approved by them.

As of June 30, 2006, the Company had invested $56,166 in marketable securities consisting of corporate bonds, U.S. Treasury notes, government asset-backed securities, certificates of deposits and equities.

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

OPERATING ACTIVITIES
($ in thousands)

During the six-month period ended June 30, 2006, net cash provided in operating activities was $7,474. Sources of cash were provided primarily by the net income of $23,556 and increase in accounts payable and other accrued expenses of $9,187. The primary uses of cash were an increase in factored receivables of $20,796 caused by a substantial increase in sales in the second quarter of 2006, as well as an increase in non-factored receivables of $3,971, an increase in inventories of $8,780 and increase in prepaid expenses, prepaid taxes, deposits and other assets.

CONTRACTUAL OBLIGATIONS

The Company's contractual obligations as of June 30, 2006 were as follows:

	Payment due by period (in thousands)				
Contractual Obligations	Total	Remainder of 2006	2007-2008	2009-2010	2011 af
Operating lease obligations	$ 89,200	$ 6,505	$ 25,551	$ 21,972	$
Purchase obligations	55,901	55,901	0	0	
Other long-term liabilities (future minimum royalty payments)	2,132	1,497	635	0	
Total	$ 147,233	$ 63,903	$ 26,186	$ 21,972	$

At June 30, 2006, the Company had un-negotiated open letters of credit for the purchase of imported merchandise of approximately $4,052.

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, an equity grant and a non-accountable expense allowance.

On February 7, 2006, the Company acquired all of the equity interest of Daniel M. Friedman. The acquisition was completed for consideration of $18,742 including transaction costs subject to adjustment, including certain earn out provisions, based on financial performance through 2010.

The Company has employment agreements with certain executives, which provide for the payment of compensation aggregating approximately $2,149 in 2006, $1,643 in 2007, $1,192 in 2008 and $480 in 2009. In addition, some of the employment agreements provide for incentive compensation based on various performance criteria as well as other benefits. The Chief Operating Officer of the Company

is entitled to deferred compensation calculated as a percentage of his base salary.

Significant portions of the Company's products are produced at overseas locations, the majority of which are located in China as well as Brazil, Italy 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. In addition, the Company currently makes approximately 98% of its purchases in U.S. dollars.

INVESTING ACTIVITIES
($ in thousands)

During the six-month period ended June 30, 2006, the Company invested $2,858 in marketable securities and received $12,530 from the maturities and sales of securities. Also, the Company invested $15,436 in the acquisition of Daniel M. Friedman. Additionally, the Company made capital expenditures of $4,448, principally for leasehold improvements for two new stores, remodeling of six existing stores, additional office space and upgrades to its computer systems.

FINANCING ACTIVITIES
($ in thousands)

During the six-month period ended June 30, 2006, the Company repurchased 349,000 shares of the Company's common stock at a total cost of $8,264. The Company received $1,882 in cash and realized a tax benefit of $741 in connection with the exercise of stock options.

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 unaudited condensed 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 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: accounts receivable and inventory reserves, valuation of intangible assets, and litigation reserves.

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 and other miscellaneous deductions that relate to the current period. The reserve against the Company's non-factored trade receivables also includes estimated losses that may result

from customers' inability to pay. The amount of the reserve for bad debts, returns, discounts and compliance chargebacks are determined by analyzing aged receivables, current economic conditions, the prevailing retail environment and historical dilution levels for customers. As a result of a reevaluation of the retail environment, the Company has revised its method for evaluating its allowance for customer markdowns and advertising chargebacks in the fourth quarter of 2005. In the past, the Company would look at historical dilution levels for customers to determine the allowance amount. Under the new methodology, the Company evaluates anticipated 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 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 operation 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, 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, which was adopted by the Company on January 1, 2002, 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 by 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 the 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 are included in the cost of sales line item on the Consolidated Statement of Operations. These include purchase commissions, letter of credit fees, brokerage fees, material and labor and related items, sample expenses, custom duty, inbound freight, royalty payments on licensed products, labels and product packaging. All warehouse and distribution costs are included in the operating expenses line item of the Company's Consolidated Statement of Operations. The Company classifies all shipping costs to customers as operating expenses. The Company's gross 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

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. An analysis of the Company's credit agreement with GMAC can be found in the Liquidity and Capital Resources section under Item 2 of this report.

As of June 30, 2006, the Company had investments in marketable securities valued at $56,166, which consist primarily of corporate bonds, U.S. treasury notes, certificates of deposit and government asset-backed securities that have various maturities through December 2009, as well as marketable equity securities. These investments are subject to interest rate risk and will decrease in value if market interest rates increase. The Company currently has the ability to hold these investments until maturity. Should there be a significant increase in interest rates, the value of these investments would be negatively affected unless they were held to maturity. In addition, any further decline in interest rates would 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 effective as of the end of the fiscal quarter covered by this quarterly report. 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

Certain legal proceedings in which the Company is involved are discussed in Note K and Part I, Item 3 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. 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 or about January 23, 2006, the Company and Steven Madden, Jamieson Karson, Arvind Dharia and Amelia Newton Varela were named as defendants in a lawsuit filed by Jojeli, Inc. ("Jojeli") and Alan Rick Friedman in the United States District Court for the Southern District of New York. In their complaint, Jojeli and Mr. Friedman assert claims arising from the Company's decision to terminate Jojeli's services on or about November 28, 2005. Mr. Friedman, Jojeli's principal, served as a senior salesperson for the Company, and provided his services to the Company pursuant to an April 26, 2004 written agreement. In their complaint, Jojeli and Mr. Friedman allege eight claims against the Company and/or three of its executives and/or one of its managers, including breach of contract, violation of the New York Labor Law, tortuous interference with contract, civil conspiracy, defamation, and prima facie tort. They seek damages on their various claims of approximately $2,700 and they also seek a declaration that they are not bound by the restrictive covenant in the parties' contract. On or about March 1, 2006, the individual defendants and the Company moved to dismiss the tort claims contained in the complaint and to strike Mr. Friedman's claim for punitive damages in connection with his contract claims. More specifically, the defendants moved to dismiss the claims alleging defamation, interference with contract, prima facie tort and civil conspiracy. If the motion is granted in its entirety, the individual defendants would be dismissed from the suit and Mr. Friedman's remaining claims would consist of breach of contract and alleged violations of the New York Labor Law. On or about April 13, 2006, Mr. Friedman filed an amended complaint in the action. In his amended complaint, Mr. Friedman (i) dropped his defamation claim against the Company's Executive Vice President of Wholesale Sales, Amelia Newton Varela, (ii) dropped all claim(s) against the Company's Chief Financial Officer, Arvind Dharia, and (iii) supplemented certain allegations concerning the remaining defendants in an effort to strengthen or preserve his remaining tort claims. On June 5, 2006, the Court dismissed the plaintiffs' tort claims against the Company and the remaining individual defendants. More specifically, the Court dismissed Mr. Friedman's tortuous interference and conspiracy claims against Mr. Karson, Mr. Madden and Ms. Newton, and it dismissed Mr. Friedman's prima facie tort claim against Mr. Karson, Mr. Madden and the Company. On or about June 28, 2006, the Company and the individual defendants filed an answer in which they denied the remaining counts of the Amended Complaint, which consist of claims for breach of contract, breach of the implied covenant of good faith and fair dealing, and for violations of certain provisions of the New York Labor Law. On June 30, 2006, the parties appeared before the court for a status conference at which time the Court established a pre-trial schedule requiring that non-expert discovery be completed by December 29, 2006 and that dispositive motions be filed by February 2, 2007. Accordingly, the parties are currently engaged in discovery. The Company believes that this action will not have a material effect on the Company's financial position.

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, 2005 have not materially changed.

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

The following table provides information as of June 30, 2006 with respect to the shares of common stock repurchased by the Company during the second quarter of fiscal 2006:

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 Amoun of Shares that May Y Purchased Under the or Programs (1)
4/1/06 - 4/30/06	0	$0	0	$18,943,810
5/01/06 - 5/31/06	0	$0	0	$18,943,810
6/1/06 - 6/30/06	127,900	$27.02	127,900	$15,487,460
Total	127,900	$27.02	127,900	$15,487,460

(1) Pursuant to an agreement reached on February 2, 2005, with a then 8% shareholder, the Company agreed to commit $25 million during the twelve months ended January 31, 2006 and $10 million during the twelve months ended January 31, 2007 to a combination of share repurchases and/or dividends, such programs to be implemented at such time and such manner as the board of directors shall determine in its sole discretion.

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

At the Annual Meeting of the Company held on May 26, 2006 (the "Annual Meeting"), the stockholders of the Company ratified the appointment of Eisner LLP and approved the adoption of the Company's 2006 Stock Incentive Plan. In addition, the stockholders of the Company elected nine directors to serve until the next Annual Meeting of Stockholders or until their successors are duly elected and qualified.

The affirmative vote of the holders of a majority of the total votes cast was required to ratify the appointment of Eisner LLP and to approve the adoption of the Plan and the affirmative vote of a plurality of the votes cast by holders of shares of common stock was required to elect the directors.

With respect to the approval of the appointment of Eisner LLP, set forth below is information on the results of the votes cast at the Annual Meeting.

For	Against	Abstained

	For	Against	Abstained
Appointment of Eisner LLP	12,436,490	344,415	742

With respect to the approval of the adoption of the Company's 2006 Stock Incentive Plan, set forth below is the information on the results of the votes cast at the Annual Meeting.

	For	Against	Abstained
Adoption of the Plan	9,441,261	1,952,141	22,247

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With respect to the election of directors, set forth below is information with respect to the nominees elected as directors of the Company at the Annual Meeting and the votes cast and/or withheld with respect to each such nominee.

Nominees	For	Withheld
Jamieson A. Karson	12,109,235	672,412
Jeffrey Birnbaum	11,693,329	1,088,318
Marc S. Cooper	11,359,899	1,421,748
Harold Kahn	12,150,023	631,624
John L. Madden	11,698,749	1,082,898
Peter Migliorini	12,102,876	678,771
Richard P. Randall	12,149,673	631,974
Thomas H. Schwartz	12,102,776	678,871
Walter Yetnikoff	12,149,923	631,724

ITEM 6. EXHIBITS

10.1 Steven Madden, Ltd. 2006 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on July 3, 2006).

10.2 Amendment to Earn-Out Agreement, dated as of April 10, 2006, by and between the Company and Daniel M. Friedman (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on April 13, 2006).

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: August 9, 2006

STEVEN MADDEN, LTD.

/s/ JAMIESON A. KARSON

Jamieson A. Karson
Chairman and Chief Executive Officer

/s/ ARVIND DHARIA

Arvind Dharia
Chief Financial Officer

Exhibit No	Description
10.1	Steven Madden, Ltd. 2006 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on July 3, 2006).
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