

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

FORM 8-K

CURRENT REPORT  
PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): August 2, 2005

STEVEN MADDEN, LTD.

-----  
(Exact name of registrant as specified in its charter)

Delaware

000-23702

13-3588231

-----  
(State or other jurisdiction  
of incorporation)

-----  
(Registration Number)

-----  
(IRS 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

-----  
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.02. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On August 2, 2005, Steven Madden, Ltd. (the "Company") issued a press release announcing its financial results as of and for the quarter ended June 30, 2005. A copy of the Company's press release announcing these financial results is attached as Exhibit 99.1 hereto, and is incorporated by reference into this report.

Also on August 2, 2005, the Company held a conference call to discuss its financial results for the quarter ended June 30, 2005. The Company's script for that conference call is attached hereto as Exhibit 99.2.

The information included in this Current Report on Form 8-K (including Exhibits 99.1 and 99.2 hereto) that is furnished pursuant to this Item 2.02 shall not be deemed to be "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section or Sections 11 and 12(a) (2) of the Securities Act of 1933, as amended. The information contained herein and in the accompanying exhibit shall not be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing, unless expressly incorporated by specific reference into such filing.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits

99.1 Press Release dated August 2, 2005 regarding the Company's announcement of its financial results as of and for the

quarter ended June 30, 2005.

99.2 Script for a Conference Call held by the Company on August 2, 2005.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, Steven Madden, Ltd. has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

STEVEN MADDEN, LTD.

By: /s/ JAMIESON KARSON

-----  
Name: Jamieson A. Karson  
Title: Chief Executive Officer

Date: August 4, 2005

EXHIBIT INDEX

DOC. NO. -----	DOCUMENT DESCRIPTION -----
Exhibit 99.1	Press Release dated August 2, 2005 regarding the Company's announcement of its financial results as of and for the quarter ended June 30, 2005.
Exhibit 99.2	Script for a Conference Call held by the Company on August 2, 2005.

Company Contact: Richard Olicker, President  
Steven Madden, Ltd.  
(718) 446-1800

Investor Relations: Cara O'Brien  
Media: Melissa Merrill  
Financial Dynamics  
(212) 850-5600

FOR IMMEDIATE RELEASE

STEVEN MADDEN, LTD. ANNOUNCES SECOND QUARTER RESULTS  
- Total Sales Grew 17.1% and Same-Store Sales Increased 13.6% -  
- EPS Increased 39.3% to \$0.39 -

LONG ISLAND CITY, N.Y. - August 2, 2005 - Steven Madden, Ltd. (NASDAQ: SHOO), a leading designer, wholesaler and marketer of fashion footwear for women, men and children, today announced financial results for the second quarter and six months ended June 30, 2005.

In line with recently updated expectations, second quarter net sales increased 17.1% to \$101.0 million from \$86.2 million in the same period last year. Gross margin increased 20 basis points to 38.1% from 37.9% and operating expenses as a percent of sales improved to 32.2% versus 32.4% in the comparable period. This resulted in operating income of \$8.7 million, or 8.6% of sales, versus \$6.6 million, or 7.6% of sales, for the same period last year. Net income increased 29.2% to \$5.3 million, or \$0.39 per diluted share, versus \$4.1 million, or \$0.28 per diluted share, in the prior year period.

Retail revenues during the quarter increased 23.5% to \$32.6 million from \$26.4 million in the comparable period last year. Same-store sales increased 13.6% for the quarter on top of a 15.2% increase in the second quarter last year. The Company opened three new stores, ending the quarter with 95 Company-owned retail locations, including the Internet store.

Revenues from the wholesale division, comprised of the Company's seven brands, Steve Madden Womens, Steve Madden Mens, Stevies, i.e.i., Steven, Candie's, and UNIONBAY, increased 14.2% to \$68.3 million versus \$59.8 million in the year-ago period. As previously announced, wholesale performance reflects particularly strong results in Madden Mens and improvements in Candie's, as well as better-than-expected aggregate gross margin for the wholesale division.

"We are quite pleased that both the wholesale and retail divisions posted double digit sales growth over the prior year period, signifying broad-based strength in the business," stated Richard Olicker, President. "Moreover, while we continued to face certain challenges during the quarter, we were able to deliver strong product to market, control costs, and improve inventory management in a number of divisions. This enabled us to make significant progress in our long-standing and focused effort to improve overall margins.

"During the quarter we also announced the appointment of Awadhesh Sinha as Chief Operating Officer, signifying our commitment to even further improving various aspects of our operations by identifying and executing additional efficiencies in the business. I look forward to partnering with Awadhesh and having the benefit of his experience as we work diligently to drive both top and bottom line growth going forward."

For the first six months of 2005, net sales increased 11.7% to \$184.3 million compared to \$165.0 million in the same period last year. Net income was \$6.2 million, or \$0.46 per diluted share, versus \$8.2 million, or \$0.57 per diluted share, in the comparable period last year.

Page 2 - Steven Madden, Ltd. Announces Second Quarter Results

Arvind Dharia, Chief Financial Officer, said, "We continue to be very proud of the solid financial foundation that is in place. Our strong balance sheet boasts \$83.8 million in cash, cash equivalents, and investment securities, no short- or long-term debt, and \$166.4 million in total stockholders' equity."

Company Outlook  
- - - - -

As previously announced, based on the positive year-to-date sales trends, coupled with projections for the business in the second half, the Company currently expects 2005 net sales will increase in the mid single digits over 2004. With respect to expectations for earnings per diluted share, initial guidance for the year assumed an improvement in the second half of 2005 versus the comparable period in the prior year. Further, the Company remains cautious about the balance of 2005 and continues to expect challenges related to

sustained margin pressure in the wholesale and retail businesses. Taking all of these factors into account, the Company currently anticipates that full year earnings will be between \$0.90 and \$0.93 per diluted share.

Jamieson Karson, Chairman and Chief Executive Officer, commented, "We are pleased with our year-to-date performance and are particularly gratified by the second quarter. Our results show that we are gaining traction from a number of key initiatives designed to strengthen and expand our management team, grow the top line, streamline costs, and improve margins and profitability. We believe our recent performance also reflects an excited and re-energized Company in conjunction with the return of Steve Madden, its founder and Creative and Design Chief. Steve is an enormous talent in the fashion industry and is a true inspiration for all of our Company's employees. We are thrilled to once again be benefiting from his vision and creative and design expertise.

"As we enter the second half of the year, we will continue to explore ways to further improve operations, diversify the business, and build the Steve Madden brand. Specifically, we will expand our retail base by opening 10 to 12 new stores for the year and will continue to evaluate potential strategic acquisitions. Additionally, we will consider additional licenses similar to the recently announced handbag agreement which is designed to expand our offering and further validate Steve Madden as a contemporary lifestyle brand."

"For all of these reasons, we are optimistic as we move forward. We believe our business is better positioned than ever before and we are confident that we will drive revenue and profitability growth and deliver enhanced shareholder value over the long-term," concluded Mr. Karson.

#### Conference Call Information

Interested shareholders are invited to listen to the second quarter earnings conference call scheduled for today, Tuesday, August 2, 2005 at 10:00 a.m. Eastern Time. The call will be broadcast live over the Internet and can be accessed by logging onto:

<http://phx.corporate-ir.net/phoenix.zhtml?p=irol-eventDetails&c=113367&eventID=1104622>

An online archive of the broadcast will be available within one hour of the conclusion of the call and will be accessible until August 16, 2005. Additionally, a replay of the call can be accessed by dialing (877) 519-4471, pin number 6305899 and will be available through August 4, 2005.

Steven Madden, Ltd. designs and markets fashion-forward footwear for women, men and children. The shoes are sold through Steve Madden retail stores, department stores, apparel and footwear specialty stores, and on-line at [www.stevemadden.com](http://www.stevemadden.com). The Company has several licenses for the Steve Madden brand, including handbags, eyewear, hosiery, and belts, and owns and operates 93 retail stores under its Steve Madden brand and two retail stores under its Steven brand. The Company is also the licensee for l.e.i. Footwear, Candie's Footwear and UNIONBAY Men's Footwear.

Statements in this press release 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 and forward-looking. 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.

(Tables Follow)

CONSOLIDATED STATEMENT OF OPERATIONS  
(in thousands, except per share data)  
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Net Sales	\$ 100,958	\$ 86,234	\$ 184,294	\$ 165,002
Cost of sales	62,448	53,522	117,466	101,018
Gross profit	38,510	32,712	66,828	63,984
Commission and licensing fee income	2,619	1,811	4,566	3,227
Operating expenses	32,472	27,947	61,516	54,055
Income from operations	8,657	6,576	9,878	13,156
Interest and other income, net	456	475	894	1,009
Income before provision for income tax	9,113	7,051	10,772	14,165
Provision for income tax	3,827	2,961	4,524	5,949
Net income	\$ 5,286	\$ 4,090	\$ 6,248	\$ 8,216
Basic income per share	\$ 0.40	\$ 0.31	\$ 0.47	\$ 0.62
Diluted income per share	\$ 0.39	\$ 0.28	\$ 0.46	\$ 0.57
Weighted average common shares outstanding - Basic	13,079	13,299	13,154	13,276
Weighted average common shares outstanding - Diluted	13,475	14,391	13,639	14,382

~ more ~

BALANCE SHEET HIGHLIGHTS

(in thousands)

	June 30, 2005 Consolidated ----- (Unaudited) -----	Dec 31, 2004 Consolidated -----	June 30, 2004 Consolidated ----- (Unaudited) -----
Cash and cash equivalents	\$ 38,072	\$ 30,853	\$ 16,287
Investment securities	45,730	49,124	50,994
Total current assets	135,654	121,094	112,506
Total assets	197,430	186,430	180,573
Total current liabilities	28,613	19,677	12,180
Total stockholder's equity	\$ 166,396	\$ 164,665	\$ 166,397

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FINAL TRANSCRIPT

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Thomson StreetEvents (SM) [GRAPHIC OMITTED]

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Conference Call Transcript

SH00 - Q2 2005 Steven Madden Earnings Conference Call

Event Time: Aug. 02. 2005 / 10:00AM,

Event Duration: N/A

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Thomson StreetEvents	streetevents@thomson.com	617.603.7900	
	www.streetevents.com		1

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Final Transcript

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Aug. 02. 2005 / 10:00AM, SH00 - Q2 2005 Steven Madden Earnings Conference Call

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CORPORATE PARTICIPANTS

Jamie Karson  
SH00 - CEO, Chairman

Richard Olicker  
SH00 - President

Arvind Dharia  
SH00 - CFO, Secretary

Awadesh Sinha  
SH00 - COO

CONFERENCE CALL PARTICIPANTS

Jeff Van Sinderen  
V. Riley & Co - Analyst

Heather Boksen  
Sidoti & Company - Analyst

Randy Scherago  
First Albany Capital - Analyst

Sam Poser  
Mosaic Research - Analyst

Robert Longnecker  
Barrington Research - Analyst

Adam Comora  
EnTrust Capital - Analyst

PRESENTATION

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Operator

Good morning ladies and gentlemen, and welcome to the Steven Madden, Ltd. Conference Call, sponsored by Financial Dynamics. [OPERATOR INSTRUCTIONS.] Any





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Aug. 02. 2005 / 10:00AM, SH00 - Q2 2005 Steven Madden Earnings Conference Call  
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Richard Olicker - SH00 - President

Thanks Jamie. Let's review in detail what took place during the second quarter. Total net sales increased 17% to \$101 million, versus \$86.2 million in the same period last year. This increase reflects strong sales increases in Steve Madden Men's, and the retail division, as well as contribution from Candie's and the Womens Wholesale division, offset by projected declines in l.e.i., Steven, and Stevies.

As for the divisional sales breakdown, retail represented 32% of the total net sales, versus 31% of the total in the second quarter last year. We also generated sizeable increases in commission revenue from our Adesso-Madden private label business. And this contributed nicely to our other income line.

In line with our recently updated expectations, net income increased 29% to \$5.3 million, versus \$4.1 million in the same period last year. Earnings per share increased 39% to \$0.39 per share, on 13,476 diluted shares outstanding, compared to \$0.28 per share on 14,391,000 diluted share outstanding in the comparable period of 2004.

With respect to gross margins, while the market has remained challenging, overall gross margins increased by 20 basis points to 38.1%. This increase is largely based on improving margin contribution from our larger wholesale business. To go a bit deeper into the mix, our wholesale gross margin improved 140 basis points, which reflects increased sales out of the high margin Madden Mens open stock program, and expanded gross margin in Candie's and l.e.i., which both benefited from recently implemented cut to order inventory controls.

Our retail division margins did come under some pressure versus the year ago period, declining 350 basis points, primarily as a result of our decision to liquidate under-performing and obsolete inventory. Bottom line results were further bolstered by an improvement in our operating margin, which increased to 8.6% versus 7.6% last year. Operating expenses, as a percentage of sales, declined 20 basis points versus the comparable period last year.

Also, it is noteworthy that this SG&A percentage improvement was generated, despite certain prudent accounting measures in the quarter. First, we took a reserve of \$1.1 million in the quarter for the settlement of litigation with our former handbag licensee. Separately, we took a goodwill write off of \$500,000 in the quarter, associated with the closing of all but one of our shoe biz retail locations. Excluding these charges, operating expenses would have improved 190 basis points versus the comparable period last year.

Let me now review what happened in each division during the quarter. The Company's wholesale division is comprised of seven segments -- Steve Madden Womens, Steve Madden Mens, l.e.i., Stevies, Steven shoes by Steve Madden, Candie's, and UNIONBAY. Net sales for the wholesale division for the quarter increased 14.2% to \$68.3 million versus \$59.8 million last year. Revenues in our flagship Steve Madden Womens brand increased 2% to \$31.5 million versus \$31 million.

The sales increase reflects our ongoing successful transition into new categories, to meet shifting industry trends. Womens wholesale successes included a broad variety of styles, from bling to bohemian. Wedges covered in cork, raffia or wood were highlights. Woven fabric, beaded and sequined uppers were strong, as were vintage thongs, and more basic mid-heel slides. Our reactive model served to help us deliver a broad array of the right shoes at the right time.

At the same time as growing this breadth of assortment, which served to differentiate us and drive our top line in the second quarter, we focused on managing our inventory and keeping them current. And we are extremely pleased to report inventories in our Steve Madden Womens wholesale business increased by 14% over the same period last year.

Additionally, during the quarter, we marked down Spring '05 inventories to their realizable value. This write-down was more substantial than in the second quarter of '04, and did have a negative effect on our gross margin in the quarter. Finally, we are encouraged by early Fall reads on select items.

As mentioned in our pre-release, Mens was a standout. And revenues increased 138% to \$15.4 million versus \$6.5 million last year. Building upon its positive momentum from Fall '04, and early Spring successes, Madden Mens led an upturn in the fusion, sport casual men's business. In particular, our growth was driven by an increase in doors at Dillard's and Nordstrom, the addition of new catalog and online customers, and deeper product assortment rollouts at Journey's.



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Aug. 02. 2005 / 10:00AM, SH00 - Q2 2005 Steven Madden Earnings Conference Call  
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Net sales for l.e.i. were \$8.7million versus \$10.6 million last year. As we've communicated in recent periods, we anticipated and planned for declines in l.e.i., based on our decision to shrink or exit accounts with little potential for future profitability, and as we found fewer channels receptive to the brand. While l.e.i.'s first quarter performance at retail was challenging, its second quarter retail performance improved. And we anticipate this leading to lower mark-down and allowance liability going forward, as well as for somewhat improved third quarter sales prospects.

Acknowledging our distribution strategy and the sales and profit performance of l.e.i. over the past several quarters, we've taken measures to cut SG&A expenses in the division. Additionally, better controls and the cut to order inventory management initiative under which l.e.i. now operates resulted in an inventory decline up 15% over year ago levels. l.e.i. inventories are now matched to support our sales and turn projections for the third quarter.

Net sales in our Candie's division increased 53% to \$5.7 million versus \$3.7 million in the second quarter of '04. The overriding reason for the sales increase was the initial shipment of product to Kohl's in both the children and womens footwear category. As sizeable initial shipments with no Candie's markdown carry forward liabilities, these shipments to Kohl's assisted in generating improved gross margins over the second quarter last year.

The Candie's at Kohl's launch, which is now underway, promises to be a significant media and marketing event. Hillary Duff has been selected as the Candie's spokesperson and model. And Kohl's has produced and is running a commercial featuring Hillary and Candie's on network and cable TV, as well as running print ads this fall in issues of entertainment and lifestyle magazines such as 17, Teen People, Elle Girl, Us Weekly, Star and Teen Vogue. We are very excited about the strength of this launch. It's a terrific association and a great opportunity.

Revenues for our Stevies children's division were \$1.9 million versus \$2.2 million during the second quarter last year. Acknowledging the sales and profit performance of Stevies over the past several quarters, we have taken measures to cut SG&A expenses in the Stevies division. Also, as was the case with l.e.i., the cut to order inventory management initiative, under which Stevies now operates, resulted in an inventory decline of 41% over year ago levels.

The continuing challenges in our children's business have led us to not only undertake management changes and inventory controls, but also to investigate more flexible modeling of our children's business, to embrace first cost, commission and royalty-based opportunities, which carry no inventory risk.

Net sales from our UNIONBAY division improved to \$314,000, versus \$45,000 in the second quarter of '04. This was a result of higher sales to the mid-tier channels. Given the somewhat frustrating delay in gaining sales traction in UNIONBAY, as was the case in Stevies, we've adopted a more flexible operating strategy here as well, to embrace first cost, commission and royalty-based opportunities, which carry no inventory risk. This is intended to enable our customers to achieve high margin goals, at the same time as allowing us to operate on a leader operating expense structure, carrying no inventory risk.

Net sales of our Steven by Steve Madden division were \$4.8 million, versus \$5.8 million in the second quarter last year. As a result of last Fall's lackluster boot season, this year Steven's wholesale customers trimmed initial boot budgets, and were less aggressive in receiving in early boot inventories. This had the effect of lowering our full price Steven boot shipments in the month of June.

Product successes for the Steven line included an assortment of embellished footwear and metallic leathers. Espadrilles, as well as flat sandals, jeweled sandals, wedges, and dressy sandals, drove the business, while summer mocks were disappointing. Steven further penetrated existing retail accounts, such as Bloomingdale's, and also added additional doors at Marshall Fields and Macy's West. New accounts added during the quarter included the Victoria's Secret Catalog and Nordstrom Direct.

Moving on to our retail division, as of June 30, there were 95 stores in operation, including our Internet store. During the quarter, we opened three new stores, and we had no store closings. Retail sales increased 23% to \$32.6 million versus \$26.4 million in the comparable period last year. Same store sales increased 13.6%. And this was on top of an increase of 15.2% in the second quarter last year.

Both women's and men's footwear sales were strong. And we also saw improved contribution from other categories, notably handbags and belts. As I mentioned





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Aug. 02. 2005 / 10:00AM, SH00 - Q2 2005 Steven Madden Earnings Conference Call  
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Moving to our other income, the Company's commission and licensing fee income line increased by 45% to \$2.6 million versus \$1.8 million last year. The increase resulted from improvement in our private label division, Adesso-Madden, which generated commission revenue increases of 86%, to \$2 million this year, versus \$1.1 million last year. Commission revenue increased primarily as a result of significant increases from our largest private label customer, notably, not only in women's, but also in children's and men's categories.

We also recognized increased commission contributions from international sales, most notably from growth in our business with Canada. There have been some developments on the international front, which we'd like to update you on. Our current distribution agreements cover Canada, Central America, Mexico, Australia, the Philippines, South Africa and Turkey. In June, we elected to amicably terminate our relationship with our European distributor. Our brand was sold only to better select retailers, and considerable sums were spent in promoting Steve Madden in Europe. And we look forward to leveraging this visibility with an alternative European distribution arrangement in the future.

In addition to wholesale distribution, we have existing agreements granting rights to open retail stores in Canada and Australia. Our partners currently operate two retail stores in Montreal, with a third planned for Toronto in the near future, and one which opened just last month in Melbourne, Australia, with a second Melbourne location planned. These are exciting ventures, as they are our best brand vehicles, and are beginning to broaden our exposure overseas at low or no financial risk.

Licensing income was \$596,000 in the quarter. We are very pleased and excited about our announcement last week of our license to Daniel Friedman & Associates for the design, manufacture and distribution of Steve Madden and Steven handbags, belts, and small leather goods.

Daniel Friedman has been our belt licensee for approximately three years. They are a leading and well respected manufacturer and distributor of fashion handbags and accessories. And they offer a tested and successful business model that aligns with our own. We look forward to a long, prosperous, brand enhancing relationship with Daniel Friedman, and to finding other strategic brand building partners in the future.

As part of the process in securing the best, most talented licensing partners, and managing them in the image and spirit of Steve Madden, we've begun to selectively invest in key personnel to ensure the success of this initiative.

Turning to marketing, it was a busy quarter. We undertook a win an internship contest at select colleges and on college job boards, where job seekers were encouraged to write and submit a short essay, telling us why they should win a paid summer internship working with the Steve Madden marketing department. In just 30 days, this competition generated over 14,000 entries. And on June 20, our very talented marketing intern, Stephanie, started working.

We ran retail promotions for tickets to the New York screening of House of Wax, featuring Paris Hilton. R&B music sensation Nina Sky, d.j.'d, danced and shopped with our customers at our (Dadeland) (ph) store opening. And we partnered with the Sagamore Hotel to drive traffic to our new Stevens store on Lincoln Road, and with Marie Claire for an evening of cocktails and shopping at our Stevens store in SoHo. Big men were also drawn to our brand, as Andrew Bogut, Sean May, Deron Williams and Bracey Wright all visited our stores on their way to their NBA draft debuts.

This year marked the third anniversary of our sponsorship of the Miss USA Pageant, where we supplied custom made shoes to each delegate for the opening number and swimsuit competition. We received great visibility during this program. We also sponsored the footwear category at the (FIT) (ph) Next Generation Awards, where we were not only acknowledged, but had the opportunity to recognize some of the brightest future talent in the footwear industry. In conjunction with Teen People, we also sponsored a private listening lounge, featuring the Back Street Boys.

These highlights were complimented by an active advertising calendar. We continued our consumer magazine presence, now promoting three divisions. In 17, Teen People, Cosmo Girl and Lucky for Women, in Complex magazine for men, and in Cosmo, In Style and Marie Claire, were Steven by Steve Madden. We continued to be active in outdoor media as well, particularly on billboards in New York and L.A., and on bus shelters and phone kiosks.

These, together with other events that ran on virtually a daily schedule, helped us to welcome Steve back and served to raise the visibility of the Steve Madden brand. With respect to our overall financial condition, as Jamie mentioned, we











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Aug. 02. 2005 / 10:00AM, SH00 - Q2 2005 Steven Madden Earnings Conference Call  
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Operator

Heather Boksen from Sidoti & Company.

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Heather Boksen - Sidoti & Company - Analyst

Good morning guys. With regards to the operating expense leverage, you had mentioned in the scripted remarks that it would have been up 190 basis points as a percentage of sales, without some accounting issues. Is that something we can look for going forward?

-----  
Jamie Karson - SH00 - CEO, Chairman

You know what Heather, it really isn't. As we said, we have a number that we believe is around the right number that it costs us to run our business from an operating expense standpoint.

We will continue to work toward making sure that we're only investing in things that are driving business and giving us a return. But I don't see any terrific improvement in operating expense leverage per se. As we said, we see continuing top line and margin challenges. And while we'll take everything that we get, and we're working on it every day, we see pretty much of a flat operating expense factor for the next two quarters.

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Heather Boksen - Sidoti & Company - Analyst

Okay. I'll get back on that with you guys later. But moving to the licenses, what are the other categories that you're really actively looking at right now to maybe pursue licensing?

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Unidentified Company Representative - SH00

Well, apparel is obviously something that we are looking at closely, although I suspect that, given that that's really the biggest license opportunity or one of the biggest license opportunities out there, that it's going to take us a little bit of time to find the right partner. We're actively looking for the right partner. And clearly that's a category that we see ourselves in. Other categories are fragrances we like, watches we see ourselves in. And those are really -- I guess those are the things that we're really focused on right now.

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Heather Boksen - Sidoti & Company - Analyst

Those are the big ones?

-----  
Unidentified Company Representative - SH00

Yes.

-----  
Heather Boksen - Sidoti & Company - Analyst

Also, this new handbag license, when is that going to begin to ship? When will you begin to see some revenue from that?

-----  
Unidentified Company Representative - SH00

Not until '06. We won't see any revenues hitting our company until '06.

-----  
Heather Boksen - Sidoti & Company - Analyst

Okay. So also, can we expect that the handbags, that I guess you're doing in-house right now, that we see in the retail stores, will that be being phased out, as you get nearer to the licensee shipping in '06?



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Aug. 02. 2005 / 10:00AM, SH00 - Q2 2005 Steven Madden Earnings Conference Call  
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Unidentified Company Representative - SH00

Well, we will work with our license partner, to develop product for our retail stores. We've had some success with the product that we've developed internally. And we'll continue to do that. But with Danny Friedman and his guys' expertise, we believe that the product in our own stores will only improve.

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Heather Boksen - Sidoti & Company - Analyst

Okay. Alright. Thanks guys.

-----  
Operator

Randy Scherago from First Albany Capital.

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Randy Scherago - First Albany Capital - Analyst

A couple of quick questions. You mentioned you canceled your international European distribution agreement. How long before we see anything on that front as far as a new distributor? And have you given any thoughts to Asia yet? And then regarding l.e.i. and Candie's, can you just sort of walk us through sort of like what the next 18 months might look for, these two brands? I know l.e.i. is kind of winding down. But Candie's sounds like it's ramping up with Kohl's now.

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Jamie Karson - SH00 - CEO, Chairman

Well, I'll take part of the question. Our European agreement was amicably terminated. We are actively looking for new partners in Europe. We think it's a tremendous opportunity for the brand. Certainly Asia represents a tremendous opportunity as well. And we are pursuing that also. It's not as easy as it may sound to find the right partner. But we are looking. As far as l.e.i., and Candie's, Rich, do you want to take that part?

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Richard Olicker - SH00 - President

Well, as I mentioned, or briefly mentioned in the call script, we see some improved prospects for the third quarter in l.e.i. And I think that all depends on what happens after that in terms of the success at retail.

In terms of Candie's, once again, the shoes are literally three weeks or so at retail. And there's terrific marketing behind them, and excitement being driven toward that product. We have very good early news on some of that product. And it will grow as quickly and as large as that business wants to grow.

So whereas the Candie's business, it's a little bit hard to project right now, because it's a one-customer business going forward, effectively. But given that there's a lot of commitment and investment being made by Kohl's there, I suspect that the initial plans might be something that need to be reviewed. And we wouldn't be surprised if we can exceed our initial plans for '06 on the Candie's business.

But it's all about retail performance. And it's a little bit early to say what those are going to be. But it will be a business that's fairly easy to project, because it will be, as I said, a one customer business, and also there will be a sales plan and a receipt plan that is put in place and fixed.

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Randy Scherago - First Albany Capital - Analyst

With l.e.i., next year sort of terminates your agreement with -- at the end of next year -- terminates the agreement with Jones.

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Richard Olicker - SH00 - President

Yes.

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Aug. 02. 2005 / 10:00AM, SH00 - Q2 2005 Steven Madden Earnings Conference Call  
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As I said on the call, the only division where we had increases were Mens, where it was anticipated, in support of the open stock program, and Candie's, where we were accelerating receipts for the Kohl's program. So it's matched inventory. There's no obsolescence there. Every other wholesale division was down. Retail was only up 3.9% against their comp and total store top line contribution, which I think is exceptional.

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Sam Poser - Mosaic Research - Analyst

Just one other -- two other questions actually. Just to follow-up again, you seem to be very conservative or cautious on the outlook. But with your inventories as clean as they are, and your concern about the margin pressures, I mean it's understandable when you had the carry-over at the beginning of the year. But at this point, it's so clean, I mean how do you -- ? Where is that? Can you give us more color on the concern?

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Richard Olicker - SH00 - President

Well, I think part of it is retail. And where you have, as I said, as we differentiate our product and broaden out the assortment, we lose some of the leverage on the sourcing side. And we are competing with larger competitors in the marketplace that are setting retail price thresholds, within which we have to compete. So I think we get a little bit of a margin pressure there. Having said that, internal projections do account for some improvement, but not dramatic improvement on the gross margin line.

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Sam Poser - Mosaic Research - Analyst

And then one last question, if I may be -- can you talk about just the -- you just signed the one license. But you've been talking about licenses for over a year now. Jamie, can you give us a little more color on just why it's taking quite as long as it is to get the license signed?

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Jamie Karson - SH00 - CEO, Chairman

Sure. Well actually Sam, we've been talking about licensing for longer than a year. But we -- take the handbag license that we just signed, for example. I mean we effectively terminated our handbag license in '03. And we met with lots of people, and went through certain analyses to determine whether we should license it or own it. And we keep saying this, and I keep reiterating this.

And I guess maybe I have to do it again and again. The key is finding the right partner. Once you're comfortable with the right partner, whether you own the category or you do it yourself, you've taken a big variable out of the equation. We think that we've found the right partner in Danny Friedman and his team. Now his team has changed over time too. I mean it wasn't the same team that he had three years ago.

We will continue to look for people that understand our brand, understand the essence of the Steve Madden Company, and can translate that into product that will not only sell, but will enhance our brand. And we work on it every day.

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Sam Poser - Mosaic Research - Analyst

Thank you very much. Congratulations on a great quarter.

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Operator

[Robert Longnecker] from Barrington.

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Robert Longnecker - Barrington Research - Analyst

Could you please give a little more color on the write-down of inventory you were talking about in Steve Madden Womens, both in terms of exactly what happened there, and kind of what the dollar amount you're talking is?

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Unidentified Company Representative - SH00

The write-down on inventory Rob?

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Aug. 02. 2005 / 10:00AM, SH00 - Q2 2005 Steven Madden Earnings Conference Call  
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Unidentified Company Representative - SH00

Well, as we said, we drive the revenue through the other income line, because we're finding that most of our international partners need to buy direct from factories in order to be competitive in their own marketplaces, and have assembling proximity to where we retail products in the United States.

So we see a continuation of that. We're working harder at it. We've got some dedicated personnel working on it now. And we expect to see some improvement there over 2006. But there are challenges. In Asia, there's a lap difference, or there's a width difference. In Europe there's a product cycle difference, where retailers are less accustomed to buying close to season. So we're finding we're needing to develop products a little bit earlier than is our traditional model in the Steve Madden business. So it's a challenge.

Despite these challenges, we're working them through. And we do believe that we can see some progress, particularly on the European front and other places, where there has been interest expressed in 2006.

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Adam Comora - EnTrust Capital - Analyst

So it sounds like we should start to see the international revenues really start to contribute in '06?

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Unidentified Company Representative - SH00

Yeah, but remember, it's not a top line revenue number. It's more in the notion of a commission and royalty.

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Adam Comora - EnTrust Capital - Analyst

Right, right, right. That's what I meant. Okay, thanks a lot guys.

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Operator

[Robert Longnecker] from Barrington.

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Robert Longnecker - Barrington Research - Analyst

Thanks. I just wanted to get a little more color on this. Looking at your kind of overall expenses year over year, I think it was \$32.5 million to coming up from \$27.9 million. And I think if you back out the numbers you just gave me, it looks like the retail expenses went from 12.2 to 15.2. Am I looking at this right?

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Unidentified Company Representative - SH00

Retail expenses over last year. SG&A or -- ?

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Robert Longnecker - Barrington Research - Analyst

I'm trying to put it back to the overall operating expense numbers that you guys have in here of the 32.5 for the quarter, versus the 27.9 for the year earlier quarter.

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Unidentified Company Representative - SH00

I'm not sure what you're asking, because we're giving you the year over year. Oh, I'm sorry. You don't have this. Okay. 11.8 last year in operating expenses to retail versus 14.3. 15.5 last year on wholesale, versus 16.9. Including the 1.1, as I said before.

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Robert Longnecker - Barrington Research - Analyst

So I guess, so can you just give a little more color then on what's driving that \$2.5 million increase on the retail?

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Aug. 02. 2005 / 10:00AM, SH00 - Q2 2005 Steven Madden Earnings Conference Call  
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Operator

[OPERATOR INSTRUCTIONS.] Jeff Van Sinderen from B. Riley.

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Jeff Van Sinderen - V. Riley & Co - Analyst

Just a follow-up along the lines of what you were just talking about in terms of the retail business. With your inventory being considerable clean, or at least that's the impression I get, wouldn't the gross margins are your merchandise margins, taking out all the other fixed expense and so forth, wouldn't those, or wouldn't it be reasonable to think that your merchandise margins would improve going forward at the retail stores?

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Unidentified Company Representative - SH00

Yes. But you are always going in believing that. As I said, it's not -- it's a matter of the quantity. It's being right at end of season. We're always -- what we're needing to do is liquidate excess inventory, go write them down. And you saw the effect of that in the second quarter at retail.

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Jeff Van Sinderen - V. Riley & Co - Analyst

Okay. Alright. That's fine. We can follow up offline. Thank you.

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Unidentified Company Representative - SH00

Okay.

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Operator

There are no further questions. Please continue with any closing comments.

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Jamie Karson - SH00 - CEO, Chairman

Well, thank you for participating in the call. And we look forward to speaking with you on the next call. Bye.

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