

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

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

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

For the fiscal year ended December 31, 2001 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 (I.R.S. employer identification no.)  
incorporation or organization)

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

(718) 446-1800  
(Registrant's Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(B) of the Act: None

Securities Registered Pursuant to Section 12(G) of the Act:  
Common Stock, par value \$.0001 per share

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  No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item  
405 of Regulation S-K is not contained herein, and will not be contained, to the  
best of registrant's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this Form 10-K or any amendment to this  
Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the  
registrant as of March 26, 2002 was approximately \$214,536,498.

The number of outstanding shares of the registrant's common stock as of  
March 26, 2002 was 12,365,216 shares.

DOCUMENTS INCORPORATED BY REFERENCE:

PART III INCORPORATES CERTAIN INFORMATION BY REFERENCE FROM THE REGISTRANT'S  
DEFINITIVE PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS SCHEDULED FOR  
MAY 17, 2002.

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## ITEM 1 BUSINESS

Steven Madden, Ltd. (together with its subsidiaries, the "Company") designs, sources, markets and sells fashion-forward footwear brands for women, men and children. The Company distributes products through its retail stores, its e-commerce web sites, catalogs and department and specialty store locations in the United States and Canada. The Company's product line includes core products, which are sold year-round, complemented by a broad range of updated styles which are designed to establish or capitalize on market trends.

The Company's business is comprised of three (3) distinct segments (wholesale, retail and private label). The wholesale division includes five (5) brands: Steve Madden(R), David Aaron(R), l.e.i.(R), Stevies(R) and the Steve Madden Mens brand. Steven Madden Retail, Inc., the Company's wholly owned retail subsidiary, operates Steve Madden and David Aaron retail stores as well as the Company's outlet stores and e-commerce web sites. The Company's wholly owned private label subsidiary, Adesso-Madden, Inc., designs and sources footwear products under private labels for many of the country's largest mass merchandisers. The Company also licenses its Steve Madden(R) and Stevies(R) trademarks for several accessory and apparel categories.

Steven Madden, Ltd., was incorporated as a New York corporation on July 9, 1990 and reincorporated under the same name in Delaware in November 1998. The Company, which has established a reputation for its creative designs, popular styles and quality products at accessible price points, was founded and developed by Steven Madden, its principal designer, and former Chief Executive Officer and Chairman of the Board. The Company completed its initial public offering in December 1993 and its shares of Common Stock currently trade on The Nasdaq National Market under the symbol "SHOO".

The Company maintains its principal executive offices at 52-16 Barnett Avenue, Long Island City, NY 11104, telephone number (718) 446-1800.

### STEVEN MADDEN - WHOLESALE DIVISION

The wholesale division sources, sells and markets the Company's Steve Madden(R) brand to major department stores, better specialty stores, and shoe stores throughout the United States and Canada. During the last few years the Steve Madden(R) product line has become a leading footwear brand in the fashion conscious junior marketplace. To serve its customers (primarily women ages 16 to 25), the wholesale division creates and markets fashion forward footwear designed to appeal to customers seeking exciting, new footwear designs at reasonable prices. In January 2001, the wholesale division expanded to include a men's footwear line which targets fashion conscious men ages 20 to 35.

As the Company's largest division, the Steve Madden(R) wholesale division accounted for \$92,413,000 in sales in 2001, or approximately 38% of the Company's total sales. Many of the wholesale division's newly created styles are test marketed at the Company's retail stores. Within a few days, the Company can determine if a test product appeals to customers. This enables the Company to use its flexible sourcing model to rapidly respond to changing preferences which the Company believes is essential for success in the fashion footwear marketplace.

### DIVA ACQUISITION CORP. - THE DAVID AARON(R) WHOLESALE DIVISION

Diva Acquisition Corp. ("Diva") designs and markets fashion footwear to women under the "David Aaron(R)" trademark through major department stores and better footwear specialty stores and two (2) Company owned retail shoe stores located in the Soho area of Manhattan and in Paramus, NJ. Priced a tier above the Steve Madden(R) brand, Diva's products are designed to appeal principally to fashion conscious women, ages 26 to 45, who shop at department stores and footwear boutiques. The Company recorded wholesale sales from the David Aaron(R) brand of \$7,454,000 for the year ended December 31, 2001, or approximately 3% of the Company's total revenues. Revenues from the sale of David Aaron footwear increased by approximately 106% compared to the preceding year due to the repositioning and reorganization of the David Aaron brand.

#### l.e.i. (R) - WHOLESALE DIVISION

Pursuant to the Company's license agreement with R.S.V. Sport, Inc., the Company has the right to use the l.e.i.(R) trademark in connection with the sale and marketing of footwear. The l.e.i.(R) trademark is well known for jeanswear in the junior marketplace and nationally through department and specialty stores. The Company's l.e.i.(R) footwear products are targeted to attract girls and young women ages 6 to 20 years old, a majority of which are younger than the typical Steve Madden(R) brand customer. The l.e.i. Wholesale Division generated revenue of \$42,592,000 for the year ended December 31, 2001, or approximately 17% of the Company's total revenues.

#### STEVIES INC. - WHOLESALE DIVISION

The Company's Stevies Wholesale Division ("Stevies Wholesale") generated revenue of \$10,984,000 for the year ended December 31, 2001, or approximately 5% of the Company's total revenues. Stevies(R) now sells in store groups such as Nordstrom, Federated Department Stores, May Department Stores, Belk, Dillard's, Limited Too, as well as independent children's stores throughout the country.

#### STEVEN MADDEN RETAIL, INC. - RETAIL DIVISION

As of December 31, 2001, the Company owned and operated sixty-five (65) retail shoe stores under the Steve Madden(R) name, two (2) under the David Aaron(R) name, five (5) outlet stores and one (1) Internet store (through the www.stevemadden.com, www.stevies.com and www.stevemaddenmens.com web sites). In 2001, the Company opened ten (10) new stores and closed two (2) under-performing stores. Most of the Steve Madden stores are located in major shopping malls in California, Colorado, District of Columbia, Florida, Georgia, Illinois, Maryland, Massachusetts, Michigan, Minnesota, Nevada, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Texas and Virginia. The retail stores have been successful for the Company, generating annual sales in excess of \$680 per square foot. Sales are primarily from the sale of the Company's Steve Madden(R) product line. Same store sales decreased 1% in 2001 over 2000 sales and total sales for the retail division were \$79 million compared to \$70 million for 2000. Sales from the retail division for the year ended December 31, 2001 were approximately 33% of the Company's total sales.

The Company believes that the Retail Division will continue to enhance overall sales and profits while building equity in the Steve Madden brand. It is for these reasons that the Company intends to add approximately ten (10) new retail stores during the 2002 calendar year. Additionally, the expansion of the Retail Division enables the Company to test and react to new products and classifications which strengthens the product development efforts of the Steve Madden wholesale division.

#### THE ADESSO-MADDEN, INC. - PRIVATE LABEL DIVISION

In September 1995, the Company incorporated Adesso-Madden, Inc. as a wholly owned subsidiary ("A-M"). A-M was formed to serve as a buying agent to mass market merchandisers, shoe store chains and other off-price retailers in connection with their purchase of private label shoes. As a buying agent, A-M arranges for shoe manufacturers in Asia and South America to manufacture private label shoes to the specifications of its clients. The Company believes that by operating in the private label, mass merchandising market, the Company is able to maximize additional non-branded sales opportunities. This leverages the Company's overall sourcing, design and distribution capabilities. Currently, this division serves as a buying agent for the procurement of women's footwear for large retailers including Sears, Payless, Wal-Mart and Target. A-M receives commissions in connection with the purchase of private label shoes by its clients. A-M also sources and sells footwear under the Soho Cobbler(R) brand name. The private label division generated commission revenue of \$4,200,000 million for the year ended December 31, 2001.

#### LICENSING

As of December 31, 2001, the Company licensed the Steve Madden trademark for use in connection with the manufacturing, marketing and sale of outerwear (including leather outerwear), belts, handbags, sunglasses, eyewear and hosiery. Each license agreement requires the licensee to pay to the Company a royalty based on net sales, a minimum royalty in the event that net sales fail to reach specified targets and a percentage of sales for advertising of the Steve Madden(R) brand.

During 2001, the Company licensed the Stevies trademark for use in connection with manufacturing, marketing and sale of sportswear, outerwear, belts, handbags, sunglasses and hosiery, fashion accessories. In February 2001, the Company terminated existing licensing agreements for jewelry and hair accessories for the Steve Madden(R) and Stevies(R) brands, and sportswear for the Stevies(R) brand.

#### DESIGN

The Company has established a reputation for its creative designs, popular styles and quality products at accessible price points. The Company believes that its future success will depend in substantial part on its ability to continue to anticipate and react to changing consumer demands in a timely manner. To meet this objective, the Company has developed a unique design process that allows it to recognize and adapt quickly to changing consumer demands. The Company's design team works together to create designs which they believe fit the Company's image, reflect current or approaching trends and can be manufactured in a timely and cost-effective manner. Once the initial design is complete, a prototype is developed, which is reviewed and refined prior to the commencement of limited production. Most new Steve Madden designs are then tested in the Steve Madden(R) retail stores. Designs that prove popular are then scheduled for mass production overseas and wholesale and retail distribution nationwide. The Company believes that its unique design and testing process and flexible sourcing model is a significant competitive advantage allowing the Company to cut mass production lead times and avoid the costly production and distribution of unpopular designs.

#### PRODUCT SOURCING AND DISTRIBUTION

The Company sources each of its product lines separately based on the individual design, styling and quality specifications of such products. The Company does not own or operate any mass manufacturing facilities and sources its branded products through independently owned manufacturers in Brazil, China, Italy, Mexico, Spain, Taiwan and the United States. The Company has established relationships with a number of manufacturers in each country. The Company believes that this sourcing of footwear products minimizes its investment and inventory risk, and enables efficient and timely introduction of new product designs. Although the Company has not entered into any long-term manufacturing or supply contracts, the Company believes that a sufficient number of alternative sources exist for the manufacture of its products. The principal materials used in the Company's footwear are available from any number of sources, both within the United States and in foreign countries.

The Company's design and distribution processes are intended to be flexible, allowing the Company to respond to and accommodate changing consumer demand. The Company's production staff tracks warehouse inventory on a daily basis, monitors sell-through data and incorporates input on product demand from wholesale customers. The Company can use product feedback to adjust production or manufacture new products in as little as five weeks. Constant inventory tracking allows the Company to manage inventory on a continuous flow basis with the goal of optimizing inventory turns.

The Company distributes its products from two (2) third party distribution warehouse centers located in California and New Jersey and its own distribution facility located in Florida. The Company also distributes its Internet shipments from a third party fulfillment center located in Michigan. By utilizing distribution facilities that specialize in distributing products to certain customers (wholesale accounts, Steve Madden retail stores and Internet fulfillment), the Company believes that its customers are better served.

#### CUSTOMERS

The Company's customers purchasing shoes consist principally of department stores and specialty stores, including shoe boutiques. Presently, the Company sells approximately sixty-two percent (62%) of its products at wholesale to department stores, including Federated Department Stores (Bloomingdale's, Bon Marche, Burdines, Macy's and Rich's), May Department Stores (Famous Barr, Filene's, Foley's, Hecht's, Kaufmann's, Meier & Frank, Lord and Taylor and Robinsons May), Dillard's, Marshall Field's and Nordstrom; and approximately thirty-eight percent (38%) to specialty stores, including Journeys, Limited Too and Mandeess; and catalog retailers, including Victoria's Secret and Fingerhut. For the year ended December 31, 2001, May Department Stores, Federated Department Stores and Nordstrom accounted for approximately twenty-one percent (21%), eighteen percent (18%) and eleven percent (11%) of the Company's wholesale sales, respectively.

## DISTRIBUTION CHANNELS

The Company sells its products principally through its Company-owned retail stores, better department stores and specialty shoe stores in the United States and abroad. Retail stores and wholesale sales account for approximately thirty-three percent (33%) and sixty-seven percent (67%) of total sales, respectively. The following paragraphs describe each of these distribution channels:

### STEVE MADDEN AND DAVID AARON RETAIL STORES

As of December 31, 2001, the Company operated sixty-five (65) Company-owned retail stores under the Steve Madden(R) name and two (2) under the David Aaron(R) name. The Company believes that its retail stores will continue to enhance overall sales, profitability, and its ability to react to changing consumer trends. The stores are used as a marketing tool which allows the Company to strengthen brand recognition and to showcase selected items from its full line of branded and licensed products. Furthermore, the retail stores provide the Company with a venue to test and introduce new products and merchandising strategies. Specifically, the Company often tests new designs at its Steve Madden(R) retail stores before scheduling them for mass production and wholesale distribution. In addition to these test marketing benefits, the Company has been able to leverage sales information gathered at Steve Madden(R) retail stores to assist its wholesale accounts in order placement and inventory management.

A typical Steve Madden(R) store is approximately 1,400 to 1,600 square feet and is located in malls and street locations which attract the highest concentration of the Company's core demographic -- style-conscious young women ages 16 to 25 years old. The David Aaron(R) store has a more sophisticated design and format styled to appeal to its more mature target audience. In addition to carefully analyzing mall demographics, the Company also sets profitability guidelines for each potential store site. Specifically, the Company targets sites at which the demographics fit the consumer profile, the positioning of the site is well trafficked and the projected fixed annual rent expense does not exceed a specified percentage of sales over the life of the lease. By setting these standards, the Company believes that each store will contribute to the Company's overall profits both in the near- and longer-terms.

### OUTLET STORES

In May 1998, Shoe Biz, Inc., a wholly owned subsidiary of the Company ("Shoe Biz"), purchased certain assets from and assumed certain liabilities of, Daniel Scott, Inc. with respect to its Shoe Biz outlet store located in Mineola, New York. In connection with the transaction, the Company hired Robert Schmertz, the former President and sole stockholder of Daniel Scott, Inc., as the President of Shoe Biz. Shoe Biz operates the five (5) outlet stores in New Jersey and New York, three (3) of which operate under the Shoe Biz name and two (2) of which operate as Steve Madden Outlet stores. Shoe Biz sells many product lines, including Steve Madden, David Aaron, Stevies and l.e.i.(R) footwear, at lower prices than prices typically charged by other "full price" retailers.

### DEPARTMENT STORES

The Company currently sells to over 2,500 locations of twenty (20) better department stores throughout the United States and Canada. The Company's top accounts include Federated Department Stores (Macy's, Bloomingdale's, Bon Marche, Burdine's and Rich's), May Department Stores (Filene's, Hecht's, Famous Barr, Foley's, Kaufmann's, Meier & Frank, Lord and Taylor and Robinsons May), Nordstrom, Dillard's and Marshall Field's.

Department store accounts are offered merchandising support which includes in-store fixtures and signage, supervision of displays and merchandising of the Company's various product lines. An important development in the Company's wholesale merchandising effort is the creation of in-store concept shops, where a broader collection of the Company's branded products are showcased. These in-store concept shops create an environment that is consistent with the Company's image and enable the retailer to display and stock a greater volume of the Company's products per square foot of retail space. In addition, these in-store concept shops encourage longer term commitment by the retailer to the Company's products and enhance consumer brand awareness.

In addition to merchandising support, the Company's customer service representatives maintain weekly communications with their accounts to guide them in placing orders and to assist them in managing inventory,

assortment and retail sales. The Company leverages its sell-through data gathered at its retail stores to assist department stores in allocating their open-to-buy dollars to the most popular styles in the product line and to phase out styles with weaker sell-throughs.

#### SPECIALTY STORES/CATALOG SALES

The Company currently sells to specialty store locations throughout the United States and Canada. The Company's top specialty store accounts include Journeys, Limited Too and Mandeys. The Company offers its specialty store accounts the same merchandising, sell-through and inventory tracking support offered to its department store accounts. Sales of the Company's products are also made through various catalogs, such as Victoria's Secret.

#### INTERNET SALES

The Company operates three (3) Internet web sites: [www.stevemadden.com](http://www.stevemadden.com), [www.stevies.com](http://www.stevies.com) and [www.stevemaddenmens.com](http://www.stevemaddenmens.com). Customers can purchase numerous styles of the Company's Steve Madden and Stevies footwear, accessory and clothing products. As a result of the Company's increased focus on e-commerce, sales in 2001 derived from its Internet store increased 37% to \$4,900,000 from \$3,500,000 in 2000.

As a result of the increased sales activity on the Company's web sites, the Company entered into an agreement with Progressive Distribution Services in April 2000. Under the terms of the Agreement, Progressive Distribution Services provides direct-to-customer and other fulfillment services for purchases made on the Company's web sites, including validation of customer credit, picking, packing and shipment of footwear products to customers of the Company.

#### MILLE 21 DISTRIBUTION AGREEMENT

On January 7, 2002, the Company and Mille 21, Inc. ("Mille 21") entered into a written agreement whereby the Company granted Mille 21 the exclusive right to develop Steve Madden retail stores and sell Steve Madden products in South Korea. Under the terms of the agreement, Mille 21 is obligated to open four (4) Steve Madden stores in South Korea in 2002 and is also obligated to purchase minimum amounts of Steve Madden products. The Company believes that establishing a presence in South Korea is a first step toward expanding into the pacific rim.

#### COMPETITION

The fashion footwear industry is highly competitive. The Company's competitors include specialty shoe companies as well as companies with diversified footwear product lines. The recent substantial growth in the sales of fashion footwear has encouraged the entry of many new competitors and increased competition from established companies. Most of these competitors, including Kenneth Cole, Nine West, DKNY, Skechers, Nike and Guess, may have significantly greater financial and other resources than the Company. The Company believes effective advertising and marketing, fashionable styling, high quality and value are the most important competitive factors and intends to continue to employ these elements as it develops its products.

In 2001, the Company launched the Steve Madden Mens brand which competes with several brands that are more established with greater consumer awareness, including Kenneth Cole, Skechers Collection, Tommy Hilfiger and Nautica.

#### MARKETING AND SALES

Prior to 1997, the Company's marketing plans relied heavily on its few Steve Madden(R) retail store locations and word-of-mouth referrals. In 1998, the Company continued to focus on creating a more integrated brand building program to establish Steve Madden as the leading designer of fashion footwear for style-conscious young women. As a result, the Company developed a national advertising campaign for lifestyle and fashion magazines which was also used in regional marketing programs such as radio advertisements, television commercials, outdoor media, college event sponsorship and live online chat forums. The Company also continues to promote its web sites ([www.stevemadden.com](http://www.stevemadden.com), [www.stevies.com](http://www.stevies.com) and [www.stevemaddenmens.com](http://www.stevemaddenmens.com)) where consumers can purchase Steve Madden(R), Stevies and Steve Madden Mens products and interact with both the Company and other customers.

The Company also increased the marketing of the Steve Madden brand to college students in 2001. The Company targeted universities for a series of lively promotions, many of them tied in with musical performances.

The Company commenced an aggressive marketing campaign for the Stevies brand with separate marketing, advertising, promotional events and in-store displays targeting the new Stevies customer. As for Steve Madden Mens, the Company supported the brand's roll-out with strategic marketing and advertising initiatives.

In order to service its wholesale accounts, the Company retains a sales force of fourteen independent sales representatives. These sales representatives work on a commission basis and are responsible for placing the Company's products with its principal customers, including better department and specialty stores. The sales representatives are supported by the Company's senior executives, a staff of twelve account executives, two merchandise coordinators and twenty five customer service representatives who continually cultivate relationships with wholesale customers. This staff assists accounts in merchandising and assessing customer preferences and inventory requirements, which ultimately serves to increase sales and profitability.

#### MANAGEMENT INFORMATION SYSTEMS (MIS) OPERATIONS

Sophisticated information systems are essential to the Company's ability to maintain its competitive position and to support continued growth. The Company operates on a dual AS/400 system which provides system support for all aspects of its business including manufacturing purchase orders; customer purchase orders; order allocations; invoicing; accounts receivable management; real time inventory management; quick response replenishment; point-of-sale support; and financial and management reporting functions. The Company has a PKMS bar coded warehousing system which is integrated with the wholesale system in order to provide accurate inventory positions and quick response size replenishment for its customers. In addition, the Company has installed an EDI system which provides a computer link between the Company and certain wholesale customers that enables both the customer and the Company to monitor purchases, shipments and invoicing. The EDI system also improves the Company's ability to respond to customer inventory requirements on a weekly basis.

In 2001, a new AS400 computer platform was implemented to support the Company's retail division. After the events of September 11, 2001, the Company reevaluated and implemented an enhanced business resumption plan. This plan insures that all mission critical business systems are available twenty four hours a day, seven days a week with a supporting redundant network infrastructure in place.

#### RECEIVABLES FINANCING; LINE OF CREDIT

Under the terms of a factoring agreement with Capital Factors, Inc., the Company is permitted to draw down 80% of its invoiced receivables at an interest rate of two points below the Prime Rate (as defined in such agreement). The agreement provides that Capital Factors is not required to purchase all the Company's receivables and requires the Company to pay an unused line fee of .25% of the average daily unused portion of the maximum amount of the credit line. On September 1, 1998, the Company and Capital Factors amended its Factoring Agreement to, among other things, provide the Company with a credit line of up to \$15,000,000, subject to certain limitations. The Company has not recently borrowed funds under its credit line with Capital Factors. The agreement with Capital Factors was renewed as of December 31, 2001 for an additional one year term. Capital Factors maintains a lien on all of the Company's inventory and receivables and assumes the credit risk for all assigned accounts approved by it.

#### TRADEMARKS AND SERVICE MARKS

The STEVE MADDEN and STEVE MADDEN plus Design trademarks and service marks have been registered in numerous International Classes (Int'l Cl. 25 for clothing and footwear; Int'l Cl. 18 for leather goods, such as handbags and wallets; Int'l Cl. 9 for eyewear; Int'l Cl. 14 for jewelry; Int'l Cl. 3 for cosmetics and fragrances; Int'l Cl. 20 for picture frames and furniture; Int'l Cl. 16 for paper goods; Int'l Cl. 24 for bedding; and Int'l Cl. 35 for retail store services) in the United States. The Company also has trademark registrations in the United States for the marks EYESHADOWS BY STEVE MADDEN (Int'l Cl. 9 for eyewear), ICE TEA (Int'l Cl. 25 for clothing and footwear), SOHO COBBLER (Int'l. Cl. 9 for eyewear; and Int'l Cl. 25 for clothing and footwear), and SHOE BIZ By STEVE MADDEN (Int'l Cl. 25 for clothing and footwear; and Int'l Cl. 35 for retail store services).



The Company further owns registrations for the STEVE MADDEN and STEVE MADDEN plus Design trademarks and service marks in various International Classes in Argentina, Australia, Brazil, Canada, Chile, China, Colombia, Hong Kong, Israel, Italy, Japan, Korea, Mexico, Panama, Saudi Arabia, South Africa, Taiwan, the 15 cooperating countries of Europe and the Benelux countries and has pending applications for registration of the STEVE MADDEN and STEVE MADDEN plus Design trademarks and service marks in Bahrain, Kuwait, Malaysia, Oman, Peru, Qatar, the United Arab Emirates and Venezuela. There can be no assurance, however, that the Company will be able to effectively obtain rights to the STEVE MADDEN mark throughout all of the countries of the world. Moreover, no assurance can be given that others will not assert rights in, or ownership of, trademarks and other proprietary rights of the Company or that the Company will be able to successfully resolve such conflicts. The failure of the Company to protect such rights from unlawful and improper appropriation may have a material adverse effect on the Company's business and financial condition.

Additionally, the Company, through its Diva Acquisition Corp. subsidiary, owns registrations for the DAVID AARON trademark and service mark in various International Classes in the United States (Int'l Cl. 25 for clothing and footwear; Int'l Cl. 18 for leather goods, such as handbags and wallets; and Int'l Cl. 35 for retail store services), Australia, Canada, Hong Kong, Israel, Japan, South Africa and the 15 cooperating countries in Europe and for its D. AARON trademark in Spain. The Company further has a pending application for registration of the DAVID AARON trademark and service mark in Panama. The Company believes that the DAVID AARON trademark has a significant value and is important to the marketing of the Company's products.

The Company, through its Stevies, Inc. subsidiary, also owns several registrations for the STEVIES trademark and service mark in two International Classes in the United States (Int'l Cl. 18 for leather goods, such as handbags and wallets; and Int'l Cl. 9 for eyewear) and for its STEVIES plus Design mark for various goods in Hong Kong and the 15 cooperating countries in Europe. Additionally, Stevies, Inc. has several pending trademark and service mark applications for registration of the STEVIES and STEVIES plus Design marks in various International Classes in the United States (Int'l Cl. 25 for clothing and footwear; Int'l Cl. 18 for leather goods, such as handbags and wallets; Int'l Cl. 9 for eyewear; Int'l Cl. 14 for jewelry; Int'l Cl. 3 for cosmetics and fragrances; Int'l Cl. 16 for paper goods; Int'l Cl. 28 for toys; Int'l Cl. 26 for hair accessories; and Int'l Cl. 35 for retail store services) and in Argentina, Bahrain, Brazil, Canada, China, Colombia, Indonesia, Japan, Korea, Kuwait, Malaysia, Mexico, Oman, Panama, Peru, Qatar, Saudi Arabia, South Africa, Thailand, Taiwan, the United Arab Emirates and Venezuela. Finally, Stevies, Inc. also owns several pending trademark and service mark applications for registration of the STEVIES BY STEVE MADDEN mark in various International Classes in the United States (Int'l Cl. 25 for clothing and footwear; Int'l Cl. 14 for jewelry; Int'l Cl. 18 for leather goods, such as handbags and wallets; Int'l Cl. 16 for paper goods; Int'l Cl. 3 for cosmetics and fragrances; Int'l Cl. 9 for eyewear; Int'l Cl. 26 for hair accessories; Int'l Cl. 28 for toys; and Int'l Cl. 35 for retail store services).

#### EMPLOYEES

At March 18, 2002, the Company employed approximately 1,023 employees, of whom approximately 313 work on a full-time basis and approximately 710 work on a part-time basis. The management of the Company considers relations with its employees to be good.

#### ITEM 2 PROPERTIES

The Company maintains approximately 25,000 square feet for its executive offices and sample production facilities at 52-16 Barnett Avenue, Long Island City, NY 11104. The lease for the Company's headquarters expires in June 2002.

The Company's showroom is located at 1370 Avenue of the Americas, New York, NY. All of the Company's brands are displayed for sale from this 3,762 square foot space. The lease for the Company's showroom expires in November 2002.

The Company's l.e.i.(R) showroom is located at 2300 Stemmons Freeway, Dallas, Texas. The Company's l.e.i. brands are displayed from this 1,080 square foot space. The lease for this showroom expires in September 2004.

The Company maintains a warehouse and distribution center in Port Everglades, Florida servicing wholesale and retail accounts. The lease for the Florida warehouse expires on January 31, 2003. In addition, the Company has engaged three independent distributors to warehouse and distribute its products.

All of the Company's retail stores are leased pursuant to leases that extend for terms which average ten years in length. A majority of the leases include clauses that provide for contingent rental payments if gross sales exceed certain targets. In addition, a majority of the leases enable the Company and/or the landlord to terminate the lease in the event that the Company's gross sales do not achieve certain minimum levels during a prescribed period. Many of the leases contain rent escalation clauses to compensate for increases in operating costs and real estate taxes.

The current terms of the Company's retail store leases expire as follows:

Years Lease Terms Expire -----	Number of Stores -----
2003	3
2004	3
2005	4
2006	2
2007	6
2008	13
2009	12
2010	11
2011	16
2012	2

### ITEM 3 LEGAL PROCEEDINGS

Except as set forth below, no material legal proceedings are pending to which the Company or any of its property is subject.

On June 20, 2000, Steven Madden, the Company's former Chairman and Chief Executive Officer, was indicted in the United States District Courts for the Southern District and Eastern District of New York. The indictments alleged that Mr. Madden engaged in securities fraud and money laundering activities. In addition, the Securities and Exchange Commission filed a complaint in the United States District Court for the Eastern District of New York alleging that Mr. Madden violated Section 17(a) of the Securities Exchange Act of 1934, as amended. On May 21, 2001, Steven Madden entered into a plea agreement with the U.S. Attorney's Office, pursuant to which he pled guilty to four of the federal charges filed against him. In addition, Mr. Madden reached a separate settlement agreement with the Securities and Exchange Commission regarding the allegations contained in its complaint. As a result, Mr. Madden resigned as the Company's Chief Executive Officer and as a member of the Company's Board of Directors effective July 1, 2001. Mr. Madden has agreed to serve as the Company's Creative and Design Chief, a non-executive position. It is expected that Mr. Madden will be sentenced in April 2002. Under the settlement agreement with the Securities and Exchange Commission, Mr. Madden has agreed to not serve as an officer or director of a publicly traded company for 7 years. Neither the indictments nor the Securities and Exchange Commission complaint allege any wrongdoing by the Company or its other officers and directors.

In December 2001, the Company purchased a loss mitigation policy to cover costs arising out of lawsuits related to the June 2000 federal indictment of Steve Madden, the Company's former Chief Executive Officer. The policy covers the Company's anticipated damages and legal costs in connection with such lawsuits. The Company is obligated to pay for damages and costs in excess of the policy limits. The cost of the policy was \$6,950,000.

#### Class Action

Between June and August 2000, eight putative securities fraud class action lawsuits have been commenced in the United States District Court for the Eastern District of New York against the Company, Steven Madden and, in five of the actions, Rhonda J. Brown (the former President and a former director of the Company) and Arvind Dharia. These actions are captioned: Wilner v. Steven Madden, Ltd., et al., 00 CV 3676 (filed June 21, 2000); Connor v. Steven Madden, et al., 00 CV 3709 (filed June 22, 2000); Blumenthal v. Steven Madden, Ltd., et al., 00

CV 3709 (filed June 23, 2000); Curry v. Steven Madden, Ltd., et al., 00 CV 3766 (filed June 26, 2000); Dempster v. Steven Madden Ltd., et al., 00 CV 3702 (filed June 30, 2000); Salafia v. Steven Madden, Ltd., et al., 00 CV 4289 (filed July 24, 2000); Fahey v. Steven Madden, Ltd., et al., 00 CV 4712 (filed August 11, 2000); Process Engineering Services, Inc. v. Steven Madden, Ltd., et al., 00 CV 5002 (filed August 22, 2000). By Order dated December 8, 2000, the Court consolidated these eight actions, appointed Process Engineering, Inc., Michael Fasci and Mark and Libby Adams as lead plaintiffs and approved their selection of lead counsel. On February 26, 2001, Plaintiffs served a Consolidated Amended Complaint. On or about October 31, 2001, plaintiffs filed a Second Consolidated Amended Class Action Complaint. The pleading names the Company, Steven Madden, Rhonda J. Brown and Arvind Dharia as defendants. It principally alleges that the Company and the individual defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated under the 1934 Act by issuing false and misleading statements, and failing to disclose material adverse information, generally relating to matters arising from Mr. Madden's June 2000 indictment. The plaintiffs seek an unspecified amount of damages, costs and expenses on behalf of themselves and all other purchasers of the Company's common stock during the period June 21, 1997 through June 20, 2000. On November 30, 2001, all of the defendants served motions to dismiss the Consolidated Amended Complaint. The motions were fully briefed on January 14, 2002. Since that time, a settlement in principle of these actions has been reached, subject to execution of definitive settlement documentation, notices to class members, a hearing and approval by the District Court. The tentative settlement is within the limits of the Company's insurance coverage.

#### Shareholder Derivative Actions

On or about September 26, 2000, a putative shareholders derivative action was commenced in the United States District Court for the Eastern District of New York, captioned Herrera v. Steven Madden and Steven Madden, Ltd., 00 CV 5803 (JG). The Company is named as a nominal defendant in the action. The complaint seeks to recover alleged damages on behalf of the Company from Mr. Madden arising from his June 2000 indictment and to require him to disgorge certain profits, bonuses and stock option grants he received. On January 3, 2001, plaintiff filed an Amended Shareholder's Derivative Complaint. On February 2, 2001, both the Company and Mr. Madden filed motions to dismiss the Amended Complaint because of plaintiff's failure to make a pre-litigation demand upon the Company's board of directors. On October 1, 2001, plaintiff filed a Second Amended Complaint. On November 2, 2001, the Company filed a motion to dismiss this pleading on grounds that plaintiff had failed to make a pre-litigation demand upon the Company's board of directors. On February 7, 2002, the Magistrate Judge filed a Report recommending that the Company's motion to dismiss be denied. The Company filed its objections to the Report on March 4, 2002. The Company believes, after consultation with counsel, that its defense costs and certain attorneys fees in connection with this action will be subject to coverage by the Company's insurance as supplemented by the loss mitigation policy described above.

On or about November 28, 2001, a purported shareholder derivative complaint was filed in the United States District Court for the Eastern District of New York, captioned Herrera v. Karson, et al., 00 CV 7868. Named as defendants therein are the Company (as nominal defendant) and certain of the Company's present and/or former directors. The complaint alleges that the individual defendants breached their fiduciary duties to the Company in connection with a decision by the Board of Directors of the Company to enter into an employment agreement with Mr. Steven Madden in or about May 2001. The complaint seeks declaratory and other equitable relief, as well as an unspecified amount of compensatory damages, costs and expenses. On or about February 1, 2002, plaintiff filed an Amended Shareholder Derivative Complaint (the "Amended Complaint"). The Amended Complaint contains substantially the same allegations and names the same defendants as the original complaint. The Company believes, after consultation with counsel, that its defense costs and certain attorneys fees in connection with this action will be subject to coverage by the Company's insurance as supplemented by the loss mitigation policy described above.

#### SEC Investigation

On March 14, 2001, the Company became aware that the Securities and Exchange Commission had issued a formal order of investigation with respect to trading in the Company's securities.

#### Other Actions

On or about September 17, 2001, an action was commenced against the Company in the Supreme Court, Queens County, captioned Mitch Stewart v. Steven Madden, Ltd. Mr. Stewart is a former independent contractor

for the Company. The complaint seeks damages of approximately \$1.3 million for breach of contract. On December 20, 2001, the Company answered the complaint, denying the allegations and asserting various affirmative defenses. On January 25, 2002, the plaintiff filed a motion for partial summary judgement, which is pending. The Company believes that it has substantial defenses to the claims asserted in the lawsuit.

On or about November 29, 2001, an action was commenced against the Company for breach of contract in the United States District Court, Eastern District of Texas, captioned Lina Enterprises v. Steven Madden, Ltd. Lina is a former independent contractor for the Company. The complaint seeks damages for breach of contract. The complaint does not specify the amount of damages being sought, but alleges that they are greater than \$75,000. On March 13, 2002, the Company filed a motion to dismiss the complaint. The Company believes that it has substantial defenses to the claims asserted in the lawsuit.

#### ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS

No matters were submitted to a vote of the holders of the Company's Common Stock during the last quarter of its fiscal year ended December 31, 2001.

PART II

ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's shares of common stock trade on The Nasdaq National Market. The following table sets forth the range of high and low bid quotations for the Company's Common Stock for the two year period ended December 31, 2001 as reported by The Nasdaq National Market. The quotes represent inter-dealer prices without adjustment or mark-ups, mark-downs or commissions and may not necessarily represent actual transactions. The trading volume of the Company's securities fluctuates and may be limited during certain periods. As a result, the liquidity of an investment in the Company's securities may be adversely affected.

Common Stock

	High	Low		High	Low
	-----	-----		-----	-----
2001			2000		
Quarter ended	15.125	7.656	Quarter ended	19	12 1/2
March 31, 2001			March 31, 2000		
Quarter ended June 30,	19.050	13.350	Quarter ended June 30,	22 7/16	6 9/16
2001			2000		
Quarter ended	19.890	7.450	Quarter ended	12 11/16	6 13/16
September 30, 2001			September 30, 2000		
Quarter ended	14.200	8.900	Quarter ended	8 15/32	7
December 31, 2001			December 31, 2000		

On March 26, 2002, the final quoted price as reported by The Nasdaq National Market was \$17.35 for each share of common stock. As of March 26, 2002, there were 12,365,216 shares of Common Stock outstanding, held of record by 73 record holders and approximately 3,402 beneficial owners.

Absence of Dividends. The Company anticipates that all of its earnings in the foreseeable future will be retained to finance the continued growth and expansion of its business and has no current intention to pay cash dividends.

ITEM 6 SELECTED FINANCIAL DATA

The following selected financial data has been derived from the Company's audited financial statements. The Income Statement Data relating to 2001, 2000 and 1999 and the Balance Sheet Data as of December 31, 2001 and 2000 should be read in Conjunction with the Company's audited consolidated financial statements and notes thereto appearing elsewhere herein.

	Year Ended December 31,				
	2001	2000	1999	1998	1997
<b>INCOME STATEMENT DATA:</b>					
Net sales	243,391,000	205,113,000	163,036,000	85,783,000	59,311,000
Cost of sales	143,518,000	115,495,000	94,536,000	49,893,000	34,744,000
Gross profit	99,873,000	89,618,000	68,500,000	35,890,000	24,567,000
Commissions and licensing fee	5,911,000	4,847,000	3,367,000	3,273,000	2,321,000
Operating expenses	(79,472,000)	(68,833,000)	(52,946,000)	(29,949,000)	(22,262,000)
Cost of loss mitigation coverage	(6,950,000)				
Income from operations	19,362,000	25,632,000	18,921,000	9,214,000	4,626,000
Interest income	1,344,000	1,744,000	909,000	380,000	312,000
Interest expense	(66,000)	(102,000)	(90,000)	(235,000)	(339,000)
Gain on sale of marketable securities	71,000	230,000			
Income before provision for income taxes	20,711,000	27,504,000	19,740,000	9,359,000	4,599,000
Provision for income taxes	8,595,000	11,461,000	8,274,000	3,912,000	1,899,000
Net Income	12,116,000	16,043,000	11,466,000	5,447,000	2,700,000
Basic income per share	\$1.04	\$1.42	\$1.06	\$0.58	\$0.33
Diluted income per share	\$0.94	\$1.26	\$0.92	\$0.50	\$0.30
Weighted average common shares					
outstanding-basic income per share	11,617,862	11,310,130	10,831,250	9,436,798	8,064,604
Effect of potential common shares from					
exercise of options and warrants	1,330,002	1,387,244	1,634,102	1,546,303	848,462
Weighted average common shares					
outstanding	12,947,864	12,697,374	12,465,352	10,983,101	8,913,066
<b>BALANCE SHEET DATA</b>					
Total assets	100,822,000	91,733,000	78,135,000	48,928,000	29,277,000
Working capital	82,633,000	57,207,000	48,076,000	33,627,000	16,545,000
Noncurrent liabilities	1,313,000	1,130,000	980,000	681,000	359,000
Stockholders' equity	102,360,000	76,566,000	62,435,000	44,960,000	25,793,000

ITEM 7 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 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.

The following table sets forth information on operations for the periods indicated:

	PERCENTAGE OF NET SALES					
	2001		2000		1999	
	(\$ in thousands)					
Consolidated:						
Net Sales	\$243,391	100%	\$205,113	100%	\$163,036	100%
Cost of Sales	143,518	59	115,495	56	94,536	58
Other Operating Income	5,911	2	4,847	2	3,367	2
Operating Expenses	79,472	33	68,833	34	52,946	32
Cost of Loss Mitigation Coverage	6,950	3	--	--	--	--
Income from Operations	19,362	8	25,632	12	18,921	12
Interest and Other Income (Expense) Net	1,349	1	1,872	1	819	1
Income Before Income Taxes	20,711	9	27,504	13	19,740	12
Net Income	12,116	5	16,043	8	11,466	7

PERCENTAGE OF NET SALES

-----  
YEAR ENDED

-----  
DECEMBER 31

-----  
(\$ in thousands)

By Segment	2001		2000		1999	
	-----		-----		-----	
WHOLESALE DIVISIONS:						
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Steven Madden, Ltd.						
-----						
Net Sales	\$ 92,413	100%	\$ 87,977	100%	\$ 78,890	100%
Cost of Sales	60,052	65	54,707	62	49,770	63
Other Operating Income	1,462	2	959	1	807	1
Operating Expenses	24,929	27	25,422	29	22,758	29
Cost of Loss Mitigation Coverage	6,950	8	--	--	--	--
Income (Loss) from Operations	1,944	2	8,807	10	7,169	9
l.e.i. Footwear:						
-----						
Net Sales	\$ 42,592	100%	\$ 37,741	100%	\$ 27,546	100%
Cost of sales	26,859	63	23,657	63	17,856	65
Operating Expenses	9,833	23	7,652	20	5,856	21
Income from Operations	5,900	14	6,432	17	3,834	14
Madden Mens:						
-----						
Net Sales	\$ 10,461	100%	--	--	--	--
Cost of sales	6,737	64	--	--	--	--
Operating Expenses	3,340	32	--	--	--	--
Income from Operations	384	4	--	--	--	--
Diva Acquisition Corp:						
-----						
Net Sales	\$ 7,454	100%	\$ 3,616	100%	\$ 7,970	100%
Cost of sales	5,384	72	2,591	72	5,296	66
Operating Expenses	1,796	24	1,231	34	1,547	19
Income (Loss) from Operations	274	4	(206)	(6)	1,127	14
Stevies Inc.:						
-----						
Net Sales	\$ 10,984	100%	\$ 6,147	100%	--	--
Cost of sales	7,014	64	3,846	63	--	--
Other Operating Income	249	2	257	4	--	--
Operating Expenses	2,626	24	1,595	26	--	--
Income from Operations	1,593	15	963	16	--	--
STEVEN MADDEN RETAIL INC.:						
-----						
Net Sales	\$ 79,487	100%	\$ 69,632	100%	\$ 48,630	100%
Cost of Sales	37,472	47	30,694	44	21,614	44
Operating Expenses	34,992	44	30,937	44	21,106	43
Income from Operations	7,023	9	8,001	12	5,910	12



PERCENTAGE OF NET SALES

-----  
YEAR ENDED  
-----

DECEMBER 31  
-----

(\$ in thousands)

By Segment (Continued)

----- ADESSO MADDEN INC.: ----- (FIRST COST)	2001		2000		1999	
Other Operating Revenue	\$ 4,200	100%	\$ 3,631	100%	\$ 2,560	100%
Operating Expenses	1,956	47	1,996	55	1,679	66
Income from Operations	2,244	53	1,635	45	881	34

RESULTS OF OPERATIONS

(\$ in thousands)

YEAR ENDED DECEMBER 31, 2001 VS. YEAR ENDED DECEMBER 31, 2000

CONSOLIDATED:

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Sales for the year ended December 31, 2001 were \$243,391 or 19% higher than the \$205,113 in the comparable period of 2000. The increase in sales is due to several factors, including (i) additional revenues of \$10,461 from the Company's new Madden Mens Wholesale Division which commenced shipping in the first quarter of 2001 (ii) a 14% increase in retail sales due to the opening of additional retail stores, (iii) a 13% increase in sales from the l.e.i. Wholesale Division ("l.e.i. Wholesale"), (iv) a 79% increase in sales from the Stevies Wholesale Division ("Stevies Wholesale"), (v) a 106% increase in sales from the Diva Acquisition Corp. Wholesale Division ("Diva Wholesale"), (vi) the addition in wholesale accounts, and (vii) an increase in public awareness with respect to the Company's brands.

Consolidated gross profit as a percentage of sales decreased from 44% in 2000 to 41% in 2001. The decrease in gross margin resulted from greater promotional activity at retail this year due to sluggish July sales and the tragic events of September 11th and its aftermath. Margin pressures from wholesale large accounts prompted the Company to be early and aggressive with markdowns in a highly promotional retail climate. Finally, the decrease in the Company's higher margin retail business as a percentage of total sales contributed to the margin erosion.

Selling, general and administrative (SG&A) expenses increased to \$79,472 in 2001 from \$68,833 in 2000. The increase in SG&A expenses is due primarily to a 28% increase in payroll, officers' bonuses and payroll-related expenses from \$24,268 in 2000 to \$31,004 in 2001. Also, selling and designing expenses increased by 19% from \$10,510 in 2000 to \$12,499 in 2001. This is due in part to an increase in sales in the current period and to the Company's increased focus on selling and designing activities. The increase in the number of retail outlets and expanded corporate office facilities resulted in an increase in occupancy, telephone and utilities expenses by 19% from \$9,208 in 2000 to \$10,957 in 2001.

Income from operations for 2001 was \$19,362, which represents a decrease of \$6,270 over the income from operations of \$25,632 in 2000 due to a non-recurring charge taken in the fourth quarter of 2001 as a result of the purchase of loss mitigation insurance coverage in the amount of \$6,950. Net income decreased to \$12,116 in 2001 from \$16,043 in 2000 due to the factors mentioned above.

WHOLESALE DIVISIONS:

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Sales from the Steve Madden Women's Wholesale Division ("Madden Wholesale") accounted for \$92,413 or 38%, and \$87,977 or 43%, of total sales in 2001 and 2000, respectively. The increase in sales was driven by the sales of key styles including euro-sport casuals, pointed toe and Madden slippers. Also, sales were driven by an increase in reorders through open stock replenishment for late spring and fall items. Gross profit as a percentage of sales decreased from 38% in 2000 to 35% in 2001 due to margin pressures from Madden Wholesale large accounts which prompted the Company to be early and aggressive with markdowns in a highly promotional retail climate. Operating expenses decreased to \$24,929 in 2001 from \$25,422 in 2000 due to decreases in advertising and marketing expenses. Madden Wholesale income from operations decreased to \$1,944 in 2001 compared to income from operations of \$8,807 in 2000 due to a non-recurring charge taken in the fourth quarter of 2001 as a result of the purchase of loss mitigation insurance coverage in the amount of \$6,950.

Sales from l.e.i. Wholesale accounted for \$42,592 or 17%, and \$37,741 or 18%, of total sales in 2001 and 2000, respectively. Revenues for the year ended December 31, 2001 increased 13% over the same period of 2000. The focus of the l.e.i. Wholesale expansion was in the department stores such as May Department Stores, and specialty store channels such as Journeys. Gross profit as a percentage of sales remained the same in 2000 and 2001. Operating expenses increased to \$9,833 in 2001 from \$7,652 in 2000 due to increases in payroll and payroll-related expenses. Additionally, selling and designing expenses increased due to an increase in sales in the current period. Income from operations for l.e.i. Wholesale was \$5,900 in 2001 compared to income from operations of \$6,432 in 2000.

The Company's new Madden Mens Wholesale Division ("Madden Mens Wholesale") commenced shipping in the first quarter of 2001. Madden Mens Wholesale generated revenues of \$10,461 for the year ended December 31, 2001. The Company is pleased by the market's acceptance of the new mens line, particularly in the sport-casual classification.

Sales from Diva Wholesale accounted for \$7,454 or 3%, and \$3,616 or 2%, of total sales in 2001 and 2000, respectively. The Company believes that the increase in sales was driven by placements of its new product line in major department stores, specialty stores, and specialty catalogues. Gross profit as a percentage of sales remained the same in 2000 and 2001. Operating expenses increased to \$1,796 in 2001 from \$1,231 in 2000 due to increases in payroll and payroll-related expenses. Additionally, selling and related expenses increased due to an increase in sales in the current period. Income from operations for Diva Wholesale was \$274 for the year ended December 31, 2001 which represents a 233% increase over loss from operations of \$206 during the same period in 2000.

Sales from the Stevies Wholesale, which commenced shipping in the second quarter of 2000, accounted for 10,984 or 5%, and \$6,147 or 3%, of total sales in 2001 and 2000, respectively. This increase was primarily due to a full year of operation and the growth in accounts such as Limited Too and Nordstrom. Gross profit as a percentage of sales decreased from 37% in 2000 to 36% in 2001 due to margin pressures from some of Stevies' large accounts which prompted the Company to be early and aggressive with markdowns in a highly promotional retail climate. Operating expenses increased to \$2,626 in 2001 from \$1,595 in 2000 due to increases in payroll and payroll-related expenses. Additionally, selling and designing expenses increased due to an increase in sales in the current period. Income from operations for Stevies Wholesale was \$1,593 in 2001 compared to income from operations of \$963 in 2000.

RETAIL DIVISION:

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Sales from the Retail Division accounted for \$79,487 or 33% and \$69,632 or 34% of total sales in 2001 and 2000, respectively. This increase in Retail Division sales is primarily due to the increase in the number of Steve Madden retail stores. During the year ended December 31, 2001, the Company closed two of its least productive stores located in Coconut Grove, Florida and in Mineola, New York. The Company is considering new sites with greater projected productivity. As of December 31, 2001, there were 73 Steve Madden retail stores compared to 65 stores as of December 31, 2000. Same store sales for the year ended December 31, 2001 decreased by 1% compared to the same store sales for 2000 due to sluggish consumer traffic in the aftermath of September 11th. Revenues from the Internet store for the year ended December 31, 2001 were in excess of \$4,000, showing an increase of 37% over such revenues in 2000. Gross profit as a percentage of sales decreased from 56% in 2000 to 53% in 2001 due to

greater promotional activity at retail this year. Operating expenses for the Retail Division increased to \$34,992 or 44% of sales in 2001 from \$30,937 or 44% of sales in 2000. This increase in dollars was due to increases in payroll and payroll-related expenses and occupancy expenses as a result of opening ten additional stores since December 31, 2000. Income from operations for the Retail Division was \$7,023 in 2001 compared to income from operations of \$8,001 in 2000.

ADESSO-MADDEN DIVISION:  
- - - - -

Adesso-Madden, Inc. generated commission revenues of \$4,200 for the year ended December 31, 2001, which represents a 16% increase over commission revenues of \$3,631 during the same period in 2000. This increase was primarily due to the growth in accounts such as Walmart and Target and the addition of children's products to the assortment mix. Operating expenses decreased to \$1,956 in 2001 from \$1,996 in 2000. Income from operations for Adesso-Madden was \$2,244 in 2001 compared to income from operations of \$1,635 in 2000.

YEAR ENDED DECEMBER 31, 2000 VS. YEAR ENDED DECEMBER 31, 1999

CONSOLIDATED:  
- - - - -

Sales for the year ended December 31, 2000 were \$205,113 or 26% higher than the \$163,036 recorded in the comparable period of 1999. The increase in sales was due to several factors, including (i) the addition of new wholesale accounts, (ii) a 43% increase in retail sales due to the opening of additional Steve Madden retail stores during 2000 and an increase in same store sales, (iii) a 37% increase in sales from l.e.i. Wholesale, (iv) an increase in the number of Steve Madden concept shops located in major department stores and specialty stores, and (v) an increase in public awareness with respect to the Company's brands. In turn, increased sales have enabled the Company to expand its advertising and in store concept efforts, all of which have contributed to the continuing increase in sales. Also in the first quarter of 2000, the Company introduced a new brand, Stevies(TM). Positioned as a fashion brand, Stevies(TM) targets girls ages 6-9 and "tweens" ages 10-12. The Company's new Stevies Wholesale commenced shipping to department stores throughout the country in the second quarter of 2000. Stevies Wholesale generated revenue of \$6,147 for the year ended December 31, 2000. Also, during the year ended December 31, 2000, 11 licenses in 13 product classifications were signed for the Stevies(TM) brand. The web site for Stevies at [www.stevies.com](http://www.stevies.com) went live in March 2000 and commenced engaging in e-commerce transactions in July 2000.

Consolidated gross profit as a percentage of sales in 2000 increased to 44% as compared to 42% for 1999 due to increased retail sales which were at higher margins, a change in the product mix, balanced sourcing and improved inventory management.

Selling, general and administrative (SG&A) expenses increased to \$68,833 in 2000 from \$52,946 in 1999. The increase in SG&A was due primarily to a 27% increase in payroll, officers' bonuses and payroll related expenses from \$19,147 in 1999 to \$24,268 in 2000. Also, the Company focused its efforts on advertising and marketing by increasing those expenses by 38% from \$5,046 in 1999 to \$6,941 in 2000. Additionally, selling, designing and licensing costs increased by 21% from \$8,702 in 1999 to \$10,510 in 2000. This was due in part to an increase in sales in the current period and to the Company's increased focus on selling, designing, and licensing activities. The increase in the number of retail outlets and expanded office and warehouse facilities resulted in an increase in occupancy, telephone, utilities, warehouse, computer, printing/supplies and depreciation expenses of 47% from \$12,162 in 1999 to \$17,820 in 2000.

Income from operations for 2000 was \$25,632, which represents an increase of \$6,711 or 35% over the income from operations of \$18,921 in 1999. Net income increased by 40% to \$16,043 in 2000 from \$11,466 in 1999.

WHOLESALE DIVISIONS:  
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Sales from Steve Madden Women's Wholesale accounted for \$87,977 or 43%, and \$78,890 or 48%, of total sales in 2000 and 1999, respectively. This increase in sales was primarily due to the addition of new Madden Wholesale accounts and an increase in the number of Steve Madden concepts shops located in major department stores and specialty stores throughout the country. Gross profit as a percentage of sales increased from 37% in 1999 to 38% in 2000 due to a change in the product mix, balanced sourcing and improved inventory management. Operating expenses increased to \$25,422 in 2000 from \$22,758 in 1999. This increase was due to an increase in

payroll and payroll related expenses principally due to the hiring of additional management personnel. Also, advertising and marketing expenses increased due to the Company's expanded marketing strategy. Additionally, selling, designing and licensing costs increased due to an increase in sales during 2000 and to the Company's increased focus on selling, designing, and licensing activities. Madden Wholesale income from operations was \$8,807 in 2000 compared to income from operations of \$7,169 in 1999.

Sales from l.e.i. Wholesale accounted for \$37,741 or 18%, and \$27,546 or 17%, of total sales in 2000 and 1999, respectively. The increase in sales was due to the addition of new l.e.i. Wholesale accounts and an increase in reorders from existing customers. The l.e.i. footwear was sold in over 3,500 doors in 2000 compared to 2,500 doors in 1999, in the United States, primarily in department stores, including Macy's East, Burdines, Rich's, Hecht's, Filene's, Foley's, Kohl's, Belk and JC Penney, and in specialty store chains, such as Journeys and Mandeos. Also, during the third quarter of 2000, l.e.i. Wholesale shipped shoes to Kohl's for the first time. Gross profit as a percentage of sales increased from 35% in 1999 to 37% in 2000 due to changes in product mix, balanced sourcing and improved inventory management. Operating expenses increased to \$7,652 in 2000 from \$5,856 in 1999 due to increases in occupancy and payroll and payroll related expenses. Additionally, sales commissions, selling, designing and licensing costs increased due to an increase in sales in the current period and due to the Company's increased focus on these activities. Income from operations for l.e.i. Wholesale was \$6,432 in 2000 compared to income from operations of \$3,834 in 1999.

Sales from the Diva Wholesale accounted for \$3,616 or 2%, and \$7,970 or 5%, of total sales in 2000 and 1999, respectively. The Company believes that the decrease in sales was due to the repositioning and reorganization of the David Aaron brand. The Company intentionally planned to reduce sales volume in 2000 enabling Diva Wholesale to use its two retail stores to test the popularity of new products. Gross profit as a percentage of sales decreased from 34% in 1999 to 28% in 2000 as under-performing carryover inventory was cleared at lower gross margins. Operating expenses decreased to \$1,231 in 2000 from \$1,547 in 1999 due to the decrease in sales commission expenses as a result of the decrease in sales and from decreases in selling and designing expenses. Loss from operations from Diva Wholesale was \$206 in 2000 compared to income from operations of \$1,127 in 1999.

Stevies Wholesale commenced shipping to department stores and specialty stores throughout the country in the second quarter of 2000. Stevies Wholesale generated revenue of \$6,147 for the year ended December 31, 2000. Stevies sold in over 1,200 doors including store groups such as Nordstrom, Federated Department Stores, May Department Stores, Belk, Dillard's, Limited Too, as well as, children's independent shoe stores throughout the country. The Stevies brand ended the fourth quarter of 2000 with over 815 Stevies concept shop locations and over 500 Stevies accessories concept shop locations. Stevies accessory concept shops house Stevies licensed accessories and slippers. Gross profit as a percentage of sales was 37% for the year ended December 31, 2000. Income from operations was \$963 in 2000.

#### RETAIL DIVISION:

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Sales from the Retail Division accounted for \$69,632 or 34% and \$48,630 or 30% of total revenues in 2000 and 1999, respectively. This increase in Retail Division sales was primarily due to the increase in the number of Steve Madden retail stores. As of December 31, 2000, there were 65 Steve Madden retail stores compared to 49 stores as of December 31, 1999. Additionally, same store sales for the year ended December 31, 2000 increased 10% over the same period of 1999. This increase in same store sales was largely due to the Company's ability to track and quickly reorder bestsellers and its strategy of testing and quickly reordering successful new products such as athletic inspired casuals, sneakers, boots and tailored shoes. Revenues from the Internet store for the year ended December 31, 2000 were \$3,549 an increase of 196% over the same period of 1999. The Company's sales generated through its websites at [www.stevemadden.com](http://www.stevemadden.com) and [www.stevies.com](http://www.stevies.com) continued to increase as the Company made additional styles available for sale on its website and usage of the Internet continued to grow. Also, the web sites for the Madden Mens at [www.stevemaddenmens.com](http://www.stevemaddenmens.com) was launched in February 2001. Gross profit as a percentage of sales remained the same in 1999 and 2000. Operating expenses increased to \$30,937 or 44% of sales in 2000 from \$21,106 or 43% of sales in 1999. This increase was due to increases in payroll and payroll related expenses such as incentive bonuses for store managers and the corporate retail management team, marketing and operating expenses for the Internet store, occupancy, printing, computer and depreciation expenses as a result of opening 16 additional stores since December 31, 1999. Income from operations from the Retail Division was \$8,001 in 2000 compared to income from operations of \$5,910 in 1999.

ADESSO-MADDEN DIVISION:

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Adesso-Madden, Inc. generated commission revenues of \$3,631 for the year ended December 31, 2000, which represented a 42% increase over commission revenues of \$2,560 during the same period in 1999. This increase was primarily due to the growth in accounts such as Walmart, Parade of Shoes, Sears, Famous Footwear, Payless, Bass, MarMaxx, Bakers, and Target kids. Operating expenses increased to \$1,996 in 2000 from \$1,679 in 1999 primarily due to increases in payroll and payroll related expenses. Income from operations from Adesso-Madden was \$1,635 in 2000 compared to income from operations of \$881 in 1999.

LICENSE AGREEMENTS

Revenues from licensing increased by 41% to \$1,711 for the year ended 2001 from \$1,216 in 2000. This increase was primarily driven by increases in licensing income from leather sportswear and sunglasses. As of December 31, 2001, the Company had six license partners covering six product categories for its Steve Madden brand. Also, as of December 31, 2001, the Company had three license partners covering three product categories for its Stevies brand. The product categories include handbags, hosiery, sunglasses, eyewear, belts and outerwear.

LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of \$82,633 at December 31, 2001 compared to \$57,207 in working capital at December 31, 2000, representing an increase of \$25,426, which was primarily due to the Company's net income and proceeds received from the exercise of options.

Under the terms of a factoring agreement with Capital Factors, Inc., the Company is permitted to draw down 80% of its invoiced receivables at an interest rate of two points below the Prime Rate (as defined in such agreement). The agreement with Capital Factors was renewed as of December 31, 2001 for an additional one year term. Capital Factors maintains a lien on all of the Company's inventory and receivables and assumes the credit risk for all assigned accounts approved by it.

OPERATING ACTIVITIES

During the year ended December 31, 2001, cash provided by operating activities was \$9,393. Uses of cash arose principally from an increase in factored accounts receivable of \$8,364 and an increase in prepaid expenses and other assets of \$7,484 principally from prepaid income taxes. Cash was provided principally by net income of \$12,116 and a decrease in accounts payables and accrued expenses of \$4,054.

The Company leases office, showroom, warehouse and retail facilities under non-cancelable operating leases with terms expiring at various times through 2012. Future minimum annual lease payments under non-cancelable operating leases consist of the following at December 31:

2002	\$	7,172,000
2003		6,835,000
2004		6,742,000
2005		6,346,000
2006		6,329,000
Thereafter		15,834,000
		-----
	\$	49,258,000
		=====

The Company has employment agreements with four key executives and its Creative Design Chief as of December 31, 2001 providing for aggregate annual salaries of approximately \$1,625 subject to annual bonuses and annual increases as may be determined by the Company's Board of Directors. In addition, as part of four of the employment agreements, the Company is committed to pay incentive bonuses based on income before interest, depreciation and taxes.

A significant portion of the Company's product is supplied from foreign manufacturers, the majority of which are located in Brazil, China, Italy and Spain. Although the Company has not entered into any manufacturing 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 if current suppliers need to be replaced. In addition, the Company currently makes approximately ninety-five percent (95%) of its purchases in U.S. dollars.

#### CAPITAL IMPROVEMENT ACTIVITIES

During the year ended December 31, 2001, the Company used cash of \$3,415 primarily for leasehold improvements on new retail stores and corporate office space and for a new point of sale computer system for the retail stores.

#### FINANCING ACTIVITIES

During the year ended December 31, 2001, the Company received \$8,998 from the sale of its common stock in connection with the exercise of stock options. On February 29, 2000, the Company announced a 1,500,000 share repurchase program. As of December 31, 2000, the Company had repurchased 900,000 shares of the Company's common stock at a total cost of \$6,076 under this program. The Company had a total of 600,000 shares remaining for repurchase as of September 24, 2001. On September 24, 2001 the Company announced that the share repurchase program was increased by 3 million shares. The Company did not repurchase any common stock during 2001.

#### OTHER CONSIDERATIONS

Dependence on Key Personnel. Although the Company has strengthened its senior management team, the Company is dependent, in particular, upon the services of Steven Madden, its current Creative and Design Chief and former Chairman and Chief Executive Officer. On June 20, 2000, Mr. Madden was indicted in the United States District Courts for the Southern District and Eastern District of New York. The indictments alleged that Mr. Madden engaged in securities fraud and money laundering activities. In addition, the Securities and Exchange Commission filed a complaint in the United States District Court for the Eastern District of New York alleging that Mr. Madden violated Section 17(a) of the Securities Exchange Act of 1934, as amended. On May 21, 2001, Steven Madden entered into a plea agreement with the U.S. Attorney's Office, pursuant to which he pled guilty to four of the federal charges filed against him. In addition, Mr. Madden reached a separate settlement agreement with the Securities and Exchange Commission regarding the allegations contained in its complaint. As a result, Mr. Madden resigned as the Company's Chief Executive Officer and as a member of the Company's Board of Directors effective July 1, 2001. Mr. Madden has agreed to serve as the Company's Creative and Design Chief, a non-executive position. It is expected that Mr. Madden will be sentenced in April 2002. Under the settlement agreement with the Securities and Exchange Commission, Mr. Madden has agreed to not serve as an officer or director of a publicly traded company for 7 years. Neither the indictments nor the Securities and Exchange Commission complaint allege any wrongdoing by the Company or its other officers and directors.

The Company maintains a key person life insurance policy on Mr. Madden with coverage in the amount of \$10,000,000. The Company has an employment contract with Mr. Madden that expires on June 30, 2011. Under the terms of his employment contract, if Mr. Madden is terminated for other than cause, death or total disability, the Company will be required to pay the remaining base salary due under his contract, half of which must be paid upon termination. Mr. Madden is also entitled during the term of the contract to an annual \$200,000 non-accountable expense account payable in monthly installments; however, the Company is not required to pay this non-accountable expense allowance for any month that Mr. Madden is not actively engaged in the duties of Creative and Design Chief. If, during the period commencing 120 days prior to a change of control and ending on the first anniversary of a change of control, Mr. Madden's employment is terminated by the Company (other than for cause) or by Mr. Madden for good reason, Mr. Madden will be entitled to receive a lump sum payment equal to three times his compensation for the preceding 12-month period ending December 31st.

The Company believes that Mr. Madden is integral to attracting talented shoe designers. Since Mr. Madden is involved in many material creative aspects of the Company's business, there can be no assurance that a suitable replacement for Mr. Madden could be found if he was unable to perform services for the Company. As a consequence, the loss of Mr. Madden or other key management personnel could have a material adverse effect upon the Company's business, results of operations and financial condition. In addition, the Company's ability to market

its products and to maintain profitability will depend, in large part, on its ability to attract and retain qualified personnel. Competition for such personnel is intense and there can be no assurance that the Company will be able to attract and retain such personnel. The inability of the Company to attract and retain such qualified personnel would have a material adverse effect on the Company's business, financial condition and results of operations.

**Fashion Industry Risks.** The success of the Company will depend in significant part upon its ability to anticipate and respond to product and fashion trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. There can be no assurance that the Company's products will correspond to the changes in taste and demand or that the Company will be able to successfully market products which respond to such trends. If the Company misjudges the market for its products, it may be faced with significant excess inventories for some products and missed opportunities with others. In addition, misjudgments in merchandise selection could adversely affect the Company's image with its customers and weak sales and resulting markdown requests from customers could have a material adverse effect on the Company's business, financial condition and results of operations.

The industry in which the Company operates is cyclical, with purchases tending to decline during recessionary periods when disposable income is low. Purchases of contemporary shoes and accessories tend to decline during recessionary periods and also may decline at other times. While the Company has fared well in recent years in a difficult retail environment, there can be no assurance that the Company will be able to maintain its historical rate of growth in revenues and earnings, or remain profitable in the future. A recession in the national or regional economies or uncertainties regarding future economic prospects, among other things, could affect consumer spending habits and have a material adverse effect on the Company's business, financial condition and results of operations.

In recent years, the retail industry has experienced consolidation and other ownership changes. In addition, some of the Company's customers have operated under the protection of the federal bankruptcy laws. In the future, retailers in the United States and in foreign markets may consolidate, undergo restructurings or reorganizations, or realign their affiliations, any of which could decrease the number of stores that carry the Company's products or increase the ownership concentration within the retail industry. While such changes in the retail industry to date have not had a material adverse effect on the Company's business or financial condition, there can be no assurance as to the future effect of any such changes.

**Inventory Management.** The fashion-oriented nature of the Company's industry and the rapid changes in customer preferences leave the Company vulnerable to an increased risk of inventory obsolescence. Thus, the Company's ability to manage its inventories properly is an important factor in its operations. Inventory shortages can adversely affect the timing of shipments to customers and diminish brand loyalty. Conversely, excess inventories can result in increased interest costs as well as lower gross margins due to the necessity of providing discounts to retailers. The inability of the Company to effectively manage its inventory would have a material adverse effect on the Company's business, financial condition and results of operations.

**Dependence Upon Customers and Risks Related to Extending Credit to Customers.** The Company's customers consist principally of department stores and specialty stores, including shoe boutiques. Certain of the Company's department store customers, including some under common ownership, account for significant portions of the Company's wholesale sales. Presently, the Company sells approximately sixty-two percent (62%) of its products at wholesale to department stores, including Federated Department Stores (Bloomingdale's, Bon Marche, Burdines, Macy's and Rich's), Dillard's, Nordstrom, Marshall Field's and May Department Stores (Famous Barr, Filene's, Foley's, Hecht's, Kaufmann's, Meier & Frank, Lord and Taylor and Robinsons May) and approximately thirty-eight (38%) percent of its products at wholesale to specialty stores, including shoe boutiques. The Company's largest customers, May Department Stores, Federated Department Stores, and Nordstrom, account for approximately twenty-one percent (21%), eighteen percent (18%) and eleven percent (11%) of the Company's wholesale sales, respectively.

The Company believes that a substantial portion of sales of the Company's licensed products by its domestic licensing partners are also made to the Company's largest department store customers. The Company generally enters into a number of purchase order commitments with its customers for each of its lines every season and does not enter into long-term agreements with any of its customers. Therefore, a decision by Federated Department Stores, May Department Stores, Nordstrom or any other significant customer, whether motivated by competitive

conditions, financial difficulties or otherwise, to decrease the amount of merchandise purchased from the Company or its licensing partners, or to change its manner of doing business could have a material adverse effect on the Company's business, financial condition and results of operations. The Company sells its products primarily to retail stores across the United States and extends credit based on an evaluation of each customer's financial condition, usually without requiring collateral. While various retailers, including some of the Company's customers, have experienced financial difficulties in the past few years which increased the risk of extending credit to such retailers, the Company's losses due to bad debts have been limited. Pursuant to the Factoring Agreement between Capital Factors and the Company, Capital Factors currently assumes the credit risk related to approximately 95% of the Company's accounts receivables. However, financial difficulties of a customer could cause the Company to curtail business with such customer or require the Company to assume more credit risk relating to such customer's receivables.

**Impact of Foreign Manufacturers.** Substantially all of the Company's products are currently sourced outside the United States through arrangements with a number of foreign manufacturers in four different countries. During the year ended December 31, 2001, approximately 90% of the Company's products were purchased from sources outside the United States, including China, Brazil, Italy and Spain.

Risks inherent in foreign operations include work stoppages, transportation delays and interruptions, changes in social, political and economic conditions which could result in the disruption of trade from the countries in which the Company's manufacturers or suppliers are located, the imposition of additional regulations relating to imports, the imposition of additional duties, taxes and other charges on imports, significant fluctuations of the value of the dollar against foreign currencies, or restrictions on the transfer of funds, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. The Company does not believe that any such economic or political condition will materially affect the Company's ability to purchase products, since a variety of materials and alternative sources exist. The Company cannot be certain, however, that it will be able to identify such alternative sources without delay or without greater cost to the Company, if ever. The Company's inability to identify and secure alternative sources of supply in this situation would have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's imported products are also subject to United States customs duties. The United States and the countries in which the Company's products are produced or sold may, from time to time, impose new quotas, duties, tariffs, or other restrictions, or may adversely adjust prevailing quota, duty or tariff levels, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

**Possible Adverse Impact of Unaffiliated Manufacturers' Inability to Manufacture in a Timely Manner, to Meet Quality Standards or to Use Acceptable Labor Practices.** As is common in the footwear industry, the Company contracts for the manufacture of a majority of its products to its specifications through foreign manufacturers. The Company does not own or operate any manufacturing facilities and is therefore dependent upon independent third parties for the manufacture of all of its products. The Company's products are manufactured to its specifications by both domestic and international manufacturers. The inability of a manufacturer to ship orders of the Company's products in a timely manner or to meet the Company's quality standards could cause the Company to miss the delivery date requirements of its customers for those items, which could result in cancellation of orders, refusal to accept deliveries or a reduction in purchase prices, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

Although the Company enters into a number of purchase order commitments each season specifying a time frame for delivery, method of payment, design and quality specifications and other standard industry provisions, the Company does not have long-term contracts with any manufacturer. As a consequence, any of these manufacturing relationships may be terminated, by either party, at any time. Although the Company believes that other facilities are available for the manufacture of the Company's products, both within and outside of the United States, there can be no assurance that such facilities would be available to the Company on an immediate basis, if at all, or that the costs charged to the Company by such manufacturers will not be greater than those presently paid.

The Company requires its licensing partners and independent manufacturers to operate in compliance with applicable laws and regulations. While the Company promotes ethical business practices and the Company's staff periodically visits and monitors the operations of its independent manufacturers, the Company does not control such manufacturers or their labor practices. The violation of labor or other laws by an independent manufacturer of the



Company or by one of the Company's licensing partners, or the divergence of an independent manufacturer's or licensing partner's labor practices from those generally accepted as ethical in the United States, could have a material adverse effect on the Company's business, financial condition and results of operations.

**Intense Industry Competition.** The fashionable footwear industry is highly competitive and barriers to entry are low. The Company's competitors include specialty companies as well as companies with diversified product lines. The recent substantial growth in the sales of fashionable footwear has encouraged the entry of many new competitors and increased competition from established companies. Most of these competitors, including Kenneth Cole, Nine West, DKNY, Skechers, Nike and Guess, may have significantly greater financial and other resources than the Company and there can be no assurance that the Company will be able to compete successfully with other fashion footwear companies. Increased competition could result in pricing pressures, increased marketing expenditures and loss of market share, and could have a material adverse effect on the Company's business, financial condition and results of operations. The Company believes effective advertising and marketing, fashionable styling, high quality and value are the most important competitive factors and plans to employ these elements as it develops its products. The Company's inability to effectively advertise and market its products could have a material adverse effect on the Company's business, financial condition and results of operations.

**Expansion of Retail Business.** The Company's continued growth depends to a significant degree on further developing the Steve Madden(R), David Aaron(R), Stevies, Steve Madden Mens and l.e.i.(R) brands, creating new product categories and businesses and operating Company-owned stores on a profitable basis. The Company plans to open approximately ten (10) Steve Madden retail stores in 2002. The Company's recent and planned expansion includes the opening of stores in new geographic markets as well as strengthening existing markets. New markets have in the past presented, and will continue to present, competitive and merchandising challenges that are different from those faced by the Company in its existing markets. There can be no assurance that the Company will be able to open new stores, and if opened, that such new stores will be able to achieve sales and profitability levels consistent with existing stores. The Company's retail expansion is dependent on a number of factors, including the Company's ability to locate and obtain favorable store sites, the performance of the Company's wholesale and retail operations, and the ability of the Company to manage such expansion and hire and train personnel. Past comparable store sales results may not be indicative of future results, and there can be no assurance that the Company's comparable store sales results will increase or not decrease in the future. In addition, there can be no assurance that the Company's strategies to increase other sources of revenue, which may include expansion of its licensing activities, will be successful or that the Company's overall sales or profitability will increase or not be adversely affected as a result of the implementation of such retail strategies.

The Company's growth has increased and will continue to increase demand on the Company's managerial, operational and administrative resources. The Company has recently invested significant resources in, among other things, its management information systems and hiring and training new personnel. However, in order to manage currently anticipated levels of future demand, the Company may be required to, among other things, expand its distribution facilities, establish relationships with new manufacturers to produce its products, and continue to expand and improve its financial, management and operating systems. There can be no assurance that the Company will be able to manage future growth effectively and a failure to do so could have a material adverse effect on the Company's business, financial condition and results of operations.

**Seasonal and Quarterly Fluctuations.** The Company's results may fluctuate quarter to quarter as a result of the timing of holidays, weather, the timing of larger shipments of footwear, market acceptance of the Company's products, the mix, pricing and presentation of the products offered and sold, the hiring and training of additional personnel, the timing of inventory write downs, the cost of materials, the mix between wholesale and licensing businesses, the incurrence of other operating costs and factors beyond the Company's control, such as general economic conditions and actions of competitors. In addition, the Company expects that its sales and operating results may be significantly impacted by (i) the opening of new retail stores and (ii) the introduction of new products. Accordingly, the results of operations in any quarter will not necessarily be indicative of the results that may be achieved for a full fiscal year or any future quarter.

**Trademark and Service Mark Protection.** The Company believes that its trademarks and service marks and other proprietary rights are important to its success and its competitive position. Accordingly, the Company devotes substantial resources to the establishment and protection of its trademarks on a worldwide basis. Nevertheless, there can be no assurance that the actions taken by the Company to establish and protect its trademarks and other

proprietary rights will be adequate to prevent imitation of its products by others or to prevent others from seeking to block sales of the Company's products as violative of the trademarks and proprietary rights of others. Moreover, no assurance can be given that others will not assert rights in, or ownership of, trademarks and other proprietary rights of the Company or that the Company will be able to successfully resolve such conflicts. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent as do the laws of the United States. The failure of the Company to establish and then protect such proprietary rights from unlawful and improper appropriation could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Trademarks and Service Marks".

**Foreign Currency Fluctuations.** The Company generally purchases its products in U.S. dollars. However, the Company sources substantially all of its products overseas and, as such, the cost of these products may be affected by changes in the value of the relevant currencies. Changes in currency exchange rates may also affect the relative prices at which the Company and foreign competitors sell their products in the same market. There can be no assurance that foreign currency fluctuations will not have a material adverse effect on the Company's business, financial condition and results of operations.

**Outstanding Options.** As of March 11, 2002, the Company had outstanding options to purchase an aggregate of approximately 2,089,514 shares of Common Stock. Holders of such options are likely to exercise them when, in all likelihood, the Company could obtain additional capital on terms more favorable than those provided by the options. Further, while its options are outstanding, they may adversely affect the terms in which the Company could obtain additional capital.

#### ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

#### ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See financial statements following Item 14 of this Annual Report on Form 10-K.

#### ITEM 9 CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### PART III

#### ITEM 10 DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT OF THE REGISTRANT

Incorporated herein by reference from the Company's definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

#### ITEM 11 EXECUTIVE COMPENSATION

Incorporated herein by reference from the Company's definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

#### ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated herein by reference from the Company's definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated herein by reference from the Company's definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

PART IV

ITEM 14 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) Financial Statements

The following consolidated financial statements of Steven Madden, Ltd. and subsidiaries are included in Item 8:

STEVEN MADDEN, LTD. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders  
Steven Madden, Ltd.  
New York, New York

We have audited the accompanying consolidated balance sheets of Steven Madden, Ltd. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements enumerated above present fairly, in all material respects, the consolidated financial position of Steven Madden, Ltd. and subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations and their consolidated cash flows for each of the years in the three-year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

Richard A. Eisner & Company, LLP

New York, New York  
February 22, 2002

With respect to Notes J[1] and J[2],  
March 4, 2002

## STEVEN MADDEN, LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	December 31,	
	2001	2000
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 50,179,000	\$ 35,259,000
Accounts receivable - net of allowances of \$257,000 and \$774,000	2,072,000	2,417,000
Due from factor - net of allowances of \$1,387,000 and \$866,000	22,783,000	15,155,000
Inventories	15,818,000	15,824,000
Prepaid expenses and other current assets	836,000	1,145,000
Prepaid taxes	7,911,000	144,000
Deferred taxes	1,223,000	1,300,000
	-----	-----
Total current assets	100,822,000	71,244,000
Property and equipment, net	15,707,000	15,600,000
Deferred taxes	3,019,000	2,462,000
Deposits and other	248,000	222,000
Cost in excess of fair value of net assets acquired - net of accumulated amortization of \$714,000 and \$575,000	2,066,000	2,205,000
	-----	-----
	\$ 121,862,000	\$ 91,733,000
	=====	=====
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of capital lease obligations	\$ 43,000	\$ 128,000
Accounts payable	6,836,000	9,502,000
Accrued expenses	10,898,000	4,178,000
Accrued bonuses	412,000	229,000
	-----	-----
Total current liabilities	18,189,000	14,037,000
Deferred rent	1,299,000	1,074,000
Capital lease obligations, less current portion	14,000	56,000
	-----	-----
	19,502,000	15,167,000
	-----	-----
Commitments, contingencies and other (Note J)		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock - \$.0001 par value, 5,000,000 shares authorized; none issued		
Series A Junior Participating preferred stock - \$.0001 par value, 60,000 shares authorized; none issued		
Common stock - \$.0001 par value, 60,000,000 shares authorized, 13,439,020 and 12,306,684 shares issued, 12,193,816 and 11,061,480 shares outstanding	1,000	1,000
Additional paid-in capital	60,643,000	46,688,000
Retained earnings	50,881,000	38,765,000
Unearned compensation	(1,174,000)	(897,000)
Treasury stock - 1,245,204 shares at cost	(7,991,000)	(7,991,000)
	-----	-----
	102,360,000	76,566,000
	-----	-----
	\$ 121,862,000	\$ 91,733,000
	=====	=====

STEVEN MADDEN, LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2001	2000	1999
Net sales:			
Wholesale	\$ 163,904,000	\$ 135,481,000	\$ 114,406,000
Retail	79,487,000	69,632,000	48,630,000
	-----	-----	-----
	243,391,000	205,113,000	163,036,000
	-----	-----	-----
Cost of sales:			
Wholesale	106,046,000	84,801,000	72,922,000
Retail	37,472,000	30,694,000	21,614,000
	-----	-----	-----
	143,518,000	115,495,000	94,536,000
	-----	-----	-----
Gross profit	99,873,000	89,618,000	68,500,000
Commission and licensing fee income	5,911,000	4,847,000	3,367,000
Operating expenses	(79,472,000)	(68,833,000)	(52,946,000)
Cost of loss mitigation coverage	(6,950,000)		
	-----	-----	-----
Income from operations before other income (expenses)	19,362,000	25,632,000	18,921,000
Other income (expenses):			
Interest income	1,344,000	1,744,000	909,000
Interest expense	(66,000)	(102,000)	(90,000)
Gain on sale of marketable securities	71,000	230,000	
	-----	-----	-----
Income before provision for income taxes	20,711,000	27,504,000	19,740,000
Provision for income taxes	8,595,000	11,461,000	8,274,000
	-----	-----	-----
NET INCOME	\$ 12,116,000	\$ 16,043,000	\$ 11,466,000
	=====	=====	=====
BASIC INCOME PER SHARE	\$1.04	\$1.42	\$1.06
	=====	=====	=====
DILUTED INCOME PER SHARE	\$0.94	\$1.26	\$0.92
	=====	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC INCOME PER SHARE	11,617,862	11,310,130	10,831,250
EFFECT OF DILUTIVE SECURITIES - OPTIONS	1,330,002	1,387,244	1,634,102
	-----	-----	-----
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED INCOME PER SHARE	12,947,864	12,697,374	12,465,352
	=====	=====	=====

See Notes to Financial Statements

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## STEVEN MADDEN, LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Retained Earnings	Unearned Compensation
	Shares	Amount			
BALANCE - DECEMBER 31, 1998	10,940,643	\$ 1,000	\$ 36,601,000	\$ 11,256,000	\$ (1,661,000)
Exercise of stock options	857,150		5,264,000		
Tax benefit from exercise of options			275,000		
Compensation in connection with issuance of stock options to a director			766,000		
Net income				11,466,000	
Amortization of unearned compensation					382,000
Common stock purchased for treasury					
BALANCE - DECEMBER 31, 1999	11,797,793	1,000	42,906,000	22,722,000	(1,279,000)
Exercise of stock options	508,891		2,807,000		
Tax benefit from exercise of options			975,000		
Net income				16,043,000	
Amortization of unearned compensation					382,000
Common stock purchased for treasury					
BALANCE - DECEMBER 31, 2000	12,306,684	1,000	46,688,000	38,765,000	(897,000)
Exercise of stock options	1,122,336		8,998,000		
Tax benefit from exercise of options			2,765,000		
Compensation in connection with issuance of stock options			2,004,000		(810,000)
Compensation in connection with issuance of restricted stock	10,000		188,000		
Net income				12,116,000	
Amortization of unearned compensation					533,000
BALANCE - DECEMBER 31, 2001	13,439,020	\$ 1,000	\$ 60,643,000	\$ 50,881,000	\$ (1,174,000)

	Treasury Stock		Total Stockholders' Equity
	Shares	Amount	
BALANCE - DECEMBER 31, 1998	270,204	\$(1,237,000)	\$ 44,960,000
Exercise of stock options			5,264,000
Tax benefit from exercise of options			275,000
Compensation in connection with issuance of stock options to a director			766,000
Net income			11,466,000
Amortization of unearned compensation			382,000
Common stock purchased for treasury	75,000	(678,000)	(678,000)
BALANCE - DECEMBER 31, 1999	345,204	(1,915,000)	62,435,000
Exercise of stock options			2,807,000
Tax benefit from exercise of options			975,000
Net income			16,043,000
Amortization of unearned compensation			382,000
Common stock purchased for treasury	900,000	(6,076,000)	(6,076,000)
BALANCE - DECEMBER 31, 2000	1,245,204	(7,991,000)	76,566,000
Exercise of stock options			8,998,000
Tax benefit from exercise of options			2,765,000
Compensation in connection with issuance of stock options			1,194,000
Compensation in connection with issuance of restricted stock			188,000
Net income			12,116,000
Amortization of unearned compensation			533,000
BALANCE - DECEMBER 31, 2001	1,245,204	\$(7,991,000)	\$ 102,360,000



STEVEN MADDEN, LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2001	2000	1999
Cash flows from operating activities:			
Net income	\$ 12,116,000	\$ 16,043,000	\$ 11,466,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Compensatory stock options and restricted stock	1,382,000		766,000
Depreciation and amortization	3,447,000	3,586,000	2,950,000
Deferred taxes	(480,000)	(1,350,000)	(1,585,000)
Deferred compensation	533,000	382,000	382,000
Tax benefit from exercise of options	2,765,000	975,000	275,000
Provision for doubtful accounts and chargebacks	219,000	506,000	757,000
Deferred rent expense	225,000	297,000	392,000
Gain on sale of marketable securities	(71,000)	(230,000)	
Changes in:			
Accounts receivable	862,000	(1,474,000)	(767,000)
Due from factor	(8,364,000)	(3,251,000)	(3,062,000)
Inventories	6,000	(5,666,000)	(2,187,000)
Prepaid expenses, prepaid taxes and other assets	(7,484,000)	(375,000)	2,098,000
Accounts payable and accrued expenses	4,054,000	4,610,000	6,120,000
Accrued bonuses	183,000	(348,000)	346,000
Income tax payable		(4,957,000)	4,957,000
Net cash provided by operating activities	9,393,000	8,748,000	22,908,000
Cash flows from investing activities:			
Purchase of property and equipment	(3,415,000)	(7,933,000)	(4,902,000)
Purchases of investment securities	(54,000)		(257,000)
Maturity/sale of investment securities	125,000	487,000	499,000
Net cash used in investing activities	(3,344,000)	(7,446,000)	(4,660,000)
Cash flows from financing activities:			
Proceeds from exercise of stock options	8,998,000	2,807,000	5,264,000
Purchase of treasury stock		(6,076,000)	(678,000)
Payments of lease obligations	(127,000)	(135,000)	(115,000)
Net cash provided by (used in) financing activities	8,871,000	(3,404,000)	4,471,000
Net increase (decrease) in cash and cash equivalents	14,920,000	(2,102,000)	22,719,000
Cash and cash equivalents - beginning of year	35,259,000	37,361,000	14,642,000
Cash and cash equivalents - end of year	\$ 50,179,000	\$ 35,259,000	\$ 37,361,000
Supplemental disclosure of noncash investing and financing activities:			
Acquisition of leased assets			\$ 29,000
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 66,000	\$ 102,000	\$ 90,000
Income taxes	\$ 14,389,000	\$ 16,172,000	\$ 3,886,000

See notes to financial statements

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] ORGANIZATION:

Steven Madden, Ltd., a Delaware corporation, designs and sources women's, girl's and men's shoes, for sale through its wholesale and retail channels under the Steve Madden, David Aaron, Stevies, Madden Mens and Lei (under license) brand names. Revenue is generated predominately through the sale of the Company's brand name merchandise and certain licensed products. At December 31, 2001 and 2000, the Company operated 73 and 65 retail stores (including its website as a store), respectively. Such revenues are subject to seasonal fluctuations. See Note K for operating segment information.

[2] PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Steven Madden, Ltd. and its wholly owned subsidiaries Steven Madden Retail, Inc., Diva Acquisition Corp., Adesso-Madden, Inc. and Stevies, Inc. (collectively referred to as the "Company"). All significant intercompany balances and transactions have been eliminated.

[3] USE OF ESTIMATES:

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

[4] CASH AND CASH EQUIVALENTS:

Cash equivalents at December 31, 2001 and 2000, amounted to approximately \$41,777,000 and \$28,865,000, respectively, and consist of certificates of deposit and commercial paper. The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

[5] INVENTORIES:

Inventories, which consist of finished goods, are stated at the lower of cost (first-in, first-out method) or market.

[6] PROPERTY AND EQUIPMENT:

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed utilizing the straight-line method based on estimated useful lives ranging from two to ten years. Leasehold improvements are amortized utilizing the straight-line method over the shorter of their estimated useful lives or the lease term. Depreciation and amortization include amounts relating to property and equipment under capital leases.

Impairment losses are recognized for long-lived assets, including certain intangibles, used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are not sufficient to recover the assets' carrying amount. Impairment losses are measured by comparing the fair value of the assets to their carrying amount. No impairment losses have been incurred for the years presented.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[7] COST IN EXCESS OF FAIR VALUE OF NET ASSETS ACQUIRED:

Cost in excess of fair value of net assets acquired relates to two acquisitions and through December 31, 2001 is being amortized over 20 years (see Note A[14]).

[8] NET INCOME PER SHARE:

Basic income per share is based on the weighted average number of common shares outstanding during the year. Diluted income per share reflects the potential dilution assuming common shares were issued upon the exercise of outstanding in-the-money options and the proceeds (including the amount of compensation cost, if any, attributed to future services and not yet recognized and the amount of tax benefits, if any, that would be credited to additional paid-in capital assuming exercise of the options) thereof were used to purchase treasury stock at the average market price during the period. For the years ended December 31, 2001 and 2000, options exercisable into approximately 265,000 and 300,000 shares of common stock, respectively have not been included in the calculation of diluted income per share as the result would have been antidilutive.

[9] ADVERTISING COSTS:

The Company expenses costs of print, radio and billboard advertisements as of the first date the advertisements take place. Advertising expense included in operating expenses amounted to approximately \$6,596,000 in 2001, \$6,941,000 in 2000, and \$5,046,000 in 1999.

[10] FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying value of the Company's financial instruments approximate fair value due to their short-term nature or their underlying terms.

[11] STOCK-BASED COMPENSATION:

The Company has elected to continue to account for its stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees". Under the provisions of APB No. 25, employee compensation arising from the grant of stock options is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of the grant over the amount an employee must pay to acquire the stock.

[12] REVENUE RECOGNITION:

Wholesale revenue, including commissions received in conjunction with private label footwear, is recognized upon shipment and transfer of title of products to customers. Allowances for estimated discounts and returns are recognized when sales are recorded. Retail sales are recognized when the payment is received from customers and are recorded net of returns. Licensing revenue is recognized on the basis of net sales reported by the licensee.

[13] RECLASSIFICATION:

Certain reclassifications have been made to the December 31, 2000 financial statements to conform to current year presentation.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[14] RECENTLY ISSUED ACCOUNTING STANDARDS:

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," which provides guidance related to revenue recognition and was effective the first fiscal quarter of fiscal years beginning after December 15, 1999, and requires companies to report any changes in revenue recognition as a cumulative change in an accounting principle at the time of implementation, in accordance with APB Opinion 20, "Accounting Changes." Subsequently, SAB Nos. 101A and 101B were issued to delay the implementation of SAB No. 101. Management believes that the adoption had no effect on the Company's revenue recognition policies. The Company adopted this pronouncement during the fiscal year ended December 31, 2000.

In 2000, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation," an interpretation of APB No. 25, "Stock Issued to Employees." Interpretation No. 44 clarifies the application of APB No. 25 for the definition of an employee for purposes of applying APB No. 25, the criteria for determining whether a plan qualifies as a non-compensatory plan, the accounting consequences of various modifications to the terms of previously granted stock options or awards, and the accounting for an exchange of stock compensation awards in a business combination. The application of this interpretation had no effect on the financial statements for the fiscal year ended December 31, 2000.

Also in 2000, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The standard replaces SFAS No. 125 and requires additional disclosure. The adoption of this standard had no material effect on the financial statements.

In June 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. It also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill. SFAS No. 142 will require that goodwill and intangibles with indeterminate lives will no longer be amortized, but instead tested for impairment. SFAS No. 142 is required to be applied starting with fiscal years beginning after December 15, 2001, with early application permitted in certain circumstances. The Company will adopt SFAS No. 142 in 2002 and does not expect any impairment of goodwill upon adoption.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The statement retains the previously existing accounting requirements related to the recognition and measurement of the impairment of long-lived assets to be held and used while expanding the measurement requirements of long-lived assets to be disposed of by sale to include discontinued operations. It also expands on the previously existing reporting requirements for discontinued operations to include a component of an entity that either has been disposed of or is classified as held for sale. The Company is required to implement SFAS No. 144 on January 1, 2002. Management does not expect this statement to have a material impact on the Company's financial position or results of operations.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

NOTE B - PROPERTY AND EQUIPMENT

The major classes of assets and accumulated depreciation and amortization are as follows:

	December 31,	
	2001	2000
Leasehold improvements	\$ 18,180,000	\$ 16,065,000
Machinery and equipment	890,000	805,000
Furniture and fixtures	3,297,000	2,596,000
Computer equipment	4,928,000	4,414,000
Equipment under capital lease	217,000	217,000
	27,512,000	24,097,000
Less accumulated depreciation and amortization	(11,805,000)	(8,497,000)
Property and equipment - net	<u>\$ 15,707,000</u>	<u>\$ 15,600,000</u>

NOTE C - DUE FROM FACTOR

Under the terms of its factoring agreement, as amended, the Company may request advances from the factor up to 80 percent of aggregate receivables purchased by the factor at an interest rate of prime minus 2%. The Company also pays a fee equal to .70% of the gross invoice amount of each receivable purchased. In addition, the factor charges an annual unused line fee of .25% of the average daily unused portion of the maximum credit line which is \$15,000,000. The Company sells and assigns a substantial portion of its receivables, principally without recourse, to the factor. At December 31, 2001 and 2000, \$1,120,000 and \$436,000 of factored receivables were sold by the Company with recourse. The factor assumes the credit risk of all assigned accounts approved by it, but maintains liens on all inventory, trade receivables (whether or not assigned) and the goods represented thereby. These transfers are recognized as sales of receivables.

NOTE D - STOCK OPTIONS

The Company established various stock option plans under which options to purchase shares of common stock may be granted to employees, directors, officers, agents, consultants and independent contractors. The 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. No incentive stock option can be granted for more than five years to a stockholder owning 10% or more of the Company's outstanding common stock. Options granted under the plans during the three years ended December 31, 2001 vest on the date of grant or up to three years from such date.

The Company has several stock option plans. The 1993 Incentive Stock Option Plan, the 1995 Stock Plan, The 1996 Stock Plan and the 1997 Stock Plan provide for options to be granted to employees and directors. Each plan provides that the option price shall not be less than the fair market value on the date of grant and that no portion of the option may be exercised beyond ten years from the date of grant. No incentive stock option can be granted to a stockholder owning 10% or more of the Company's outstanding common stock.

In June 1999, the Company adopted the 1999 Stock Plan under which the maximum number of shares to which awards may be granted was initially 400,000 shares. In May 2000, the stockholders approved an amendment to the 1999 Stock Plan to increase the maximum number of shares subject to the plan to 975,000 shares. In July 2001, the stockholders approved an amendment to the 1999 Stock Plan to increase the maximum number of shares subject to the plan to 1,600,000 shares. Terms of the 1999 Stock Plan are not materially different from the various existing stock option plans.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

## NOTE D - STOCK OPTIONS (CONTINUED)

Through December 31, 2001, 1,564,000 options had been granted under the 1999 Stock Plan, as amended, and as of such date 36,000 shares were available for the granting of future options under the 1999 Stock Plan.

The Company granted options to an executive employee to purchase 250,000 shares of the Company's common stock at \$7.50 per share in 1998. The market value of the stock at the date of grant was \$10.125 per share. The Company recorded approximately \$656,000 as unearned compensation relating to such options, of which approximately \$254,000, was charged to operations during each of the years ended December 31, 2000 and 1999.

In connection with the amended employment agreement of the former Chief Executive Officer ("CEO"), who is now the Company's Creative and Design Chief, the Company issued options to purchase 500,000 shares of its common stock. The options, which vested in August 1998, have an exercise price of \$3.31 and an exercise period of 10 years. Unearned compensation was recorded in the amount of \$1,345,000 which represented the difference between the exercise price and the fair value of the stock on the date of grant, and is classified as a component of stockholders' equity. The unearned compensation is being amortized over the ten-year term of the amended agreement. Accordingly, \$128,000 per annum has been charged to operations for 2001, 2000 and 1999.

In connection with the Chief Operating Officer's employment agreement, the Company issued options to purchase 75,000 shares of its common stock. The options which vested quarterly through December 31, 2001, have an exercise price of \$8.00. Unearned compensation was recorded in the amount of \$810,000, which represents the difference between the exercise price and the fair value of the stock on the date of grant, and is classified as a component of stockholders' equity. The unearned compensation is being amortized over the two year term of the employment agreement. Accordingly, \$405,000 has been charged to operations for 2001.

Activity relating to stock options granted under the Company's plans and outside the plans during the three years ended December 31, 2001:

	2001		2000		1999	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding at January 1	2,749,000	\$6.36	2,720,000	\$5.85	2,968,000	\$5.16
Granted	614,000	12.68	550,000	9.09	617,000	9.57
Exercised	(1,122,000)	8.02	(509,000)	5.52	(857,000)	6.14
Cancelled	(10,000)	9.98	(12,000)	6.34	(8,000)	6.14
	-----		-----		-----	
Outstanding at December 31	2,231,000	7.25	2,749,000	6.36	2,720,000	5.85
	=====		=====		=====	
Exercisable	2,131,000	7.22	2,575,000	6.06	2,515,000	5.48
	=====		=====		=====	

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

## NOTE D - STOCK OPTIONS (CONTINUED)

The following table summarizes information about stock options at December 31, 2001:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$1.50 to \$3.50	820,000	4.1	\$ 2.36	820,000	\$2.36
\$5.50 to \$6.00	337,000	6.2	5.82	337,000	5.82
\$6.50 to \$7.97	279,000	8.2	7.12	241,000	7.14
\$8.00 to \$9.12	210,000	9.2	8.61	148,000	8.75
\$9.55 to \$10.83	230,000	7.9	10.34	230,000	10.34
\$11.81 to \$12.00	89,000	7.8	11.84	89,000	11.84
\$18.27 to \$20.80	266,000	9.5	19.01	266,000	18.75
	2,231,000	6.6	7.25	2,131,000	7.22

As set forth in Note A[11], the Company applies APB No. 25 in accounting for its employee/director stock option incentive plans and, accordingly, recognizes compensation expense for the difference between the fair value of the underlying common stock and the exercise price of the option at the date of grant. Pro forma information regarding net income and earnings per share is required by SFAS No. 123 "Accounting for Stock-Based Compensation" and has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No.123. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options vesting period. Substantially all options granted in 2001, 2000 and 1999 vested on date of grant, and accordingly, the estimated fair value of such options were charged to expense in the year of grant for pro forma disclosures. The Company's pro forma information follows:

	2001	2000	1999
Net income:			
As reported	\$ 12,116,000	\$ 16,043,000	\$ 11,466,000
Pro forma	\$ 10,779,000	\$ 14,588,000	\$ 7,380,000
Basic income per share:			
As reported	\$1.04	\$1.42	\$1.06
Pro forma	\$.93	\$1.29	\$.68
Diluted income per share:			
As reported	\$.94	\$1.26	\$.92
Pro forma	\$.83	\$1.15	\$.59

The weighted average fair value of options granted in 2001, 2000 and 1999 was approximately \$9.44, \$4.54 and \$6.62, respectively, using the Black-Scholes option-pricing model with the following assumptions:

	2001	2000	1999
Dividend yield	0	0	0
Volatility	75%	60%	61%
Risk free interest rate	3.56 - 4.98%	5.97 - 6.30%	5.75 - 6.03%
Expected life in years	4	4	4

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

NOTE E - PREFERRED STOCK

The Company has authorized 5,000,000 shares of preferred stock. The Board of Directors have designated 60,000 shares of such preferred stock as Series A Junior Participating Preferred Stock ("Series A Preferred"). Holders of the shares of Series A Preferred are entitled to dividends equal to 1,000 times dividends declared or paid on the Company's common stock. Each share of Series A preferred entitles the holder to 1,000 votes on all matters submitted to the holders of common stock. The Series A Preferred has a liquidation preference of a \$1,000 per share, and is not redeemable by the Company or the holder. No preferred shares have been issued.

NOTE F - RIGHTS AGREEMENT

On October 30, 2001, the Company declared a dividend distribution of one preferred stock purchase right (a "Right") for each outstanding share of common stock. Each Right entitles the holder to purchase from the Company one one-thousandth (1/1,000) of a share of Series A Preferred at a price of \$75 per one one-thousandth (1/1,000) of a share. Initially, the Rights will not be exercisable and will automatically trade with the common stock. The Rights become exercisable, in general, ten days following the announcement of a person or group acquiring beneficial ownership of at least 15% of the outstanding voting stock of the Company.

NOTE G - TREASURY STOCK

On February 29, 2000, the Company announced that the Board of Directors authorized a share repurchase program to acquire up to 1,500,000 shares of the Company's common stock from time to time in open market transactions. In June and July 2000, the Company purchased 900,000 shares of common stock in connection with such program.

NOTE H - LEASES

[1] CAPITAL LEASES:

The Company leases certain equipment under capital leases. Future minimum lease payments consist of the following at December 31:

2002	\$	46,000
2003		14,000
		-----
Total minimum lease payments		60,000
Less amounts representing interest		3,000
		-----
Present value of minimum lease payments		57,000
Less current maturities		43,000
		-----
Capital lease obligation, less current maturities	\$	14,000
		=====



STEVEN MADDEN, LTD. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

NOTE H - LEASES (CONTINUED)

[2] OPERATING LEASES:

The Company leases office, showroom, warehouse and retail facilities under noncancelable operating leases with terms expiring at various times through 2012. Future minimum annual lease payments under noncancelable operating leases consist of the following at December 31:

2002	\$	7,172,000
2003		6,835,000
2004		6,742,000
2005		6,346,000
2006		6,329,000
Thereafter		15,834,000
		-----
	\$	49,258,000
		=====

A majority of the retail store leases provide for contingent rental payments if gross sales exceed certain targets. In addition, many of the leases contain rent escalation clauses to compensate for increases in operating costs and real estate taxes.

Rent expense for the years ended December 31, 2001, 2000 and 1999 was approximately \$9,142,000, \$7,604,000 and \$5,870,000, respectively. Included in such amounts are contingent rents of \$125,000, \$122,000 and \$122,000 in 2001, 2000 and 1999, respectively.

Pursuant to certain leases, rent expense charged to operations differs from rent paid because of scheduled rent increases. Accordingly, the Company has recorded deferred rent. Rent expense is calculated by allocating total rental payments, including those attributable to scheduled rent increases, on a straight-line basis, over the lease term.

NOTE I - INCOME TAXES

The income tax provision (benefit) consists of the following:

	2001	2000	1999
	-----	-----	-----
Current:			
Federal	\$ 6,899,000	\$ 9,787,000	\$ 7,285,000
State and local	2,176,000	3,024,000	2,574,000
	-----	-----	-----
	9,075,000	12,811,000	9,859,000
	-----	-----	-----
Deferred:			
Federal	(365,000)	(1,031,000)	(1,167,000)
State and local	(115,000)	(319,000)	(418,000)
	-----	-----	-----
	(480,000)	(1,350,000)	(1,585,000)
	-----	-----	-----
	\$ 8,595,000	\$ 11,461,000	\$ 8,274,000
	=====	=====	=====

STEVEN MADDEN, LTD. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

NOTE I - INCOME TAXES (CONTINUED)

A reconciliation between taxes computed at the federal statutory rate and the effective tax rate is as follows:

	December 31,		
	2001	2000	1999
Income taxes at federal statutory rate	35.0%	35.0%	34.0%
State income taxes - net of federal income tax benefit	6.5	6.4	8.6
Nondeductible items	.3	.3	.3
Other	(.3)		(1.0)
Effective rate	41.5%	41.7%	41.9%

The Company applies the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

The components of deferred tax assets and liabilities are as follows:

	December 31,	
	2001	2000
Current deferred tax assets:		
Accounts receivable allowances	\$ 691,000	\$ 617,000
Inventory	532,000	683,000
	1,223,000	1,300,000
Non-current deferred tax assets:		
Depreciation	2,035,000	1,735,000
Nondeductible compensation	438,000	276,000
Deferred rent	546,000	451,000
	3,019,000	2,462,000
Deferred tax assets	\$ 4,242,000	\$ 3,762,000

NOTE J - COMMITMENTS, CONTINGENCIES AND OTHER

[1] CLASS ACTION LITIGATION:

Between June and August 2000 several class action lawsuits were commenced in the United States District Court for the Eastern District of New York against the Company, Steven Madden personally, and, in some of the actions, the Company's then President and its Chief Financial Officer.

On December 8, 2000, the court consolidated these actions and appointed a lead plaintiff. On October 31, 2001, the plaintiffs served a second consolidated amended class action complaint.

NOTE J - COMMITMENTS, CONTINGENCIES AND OTHER (CONTINUED)

[1] CLASS ACTION LITIGATION: (CONTINUED)

The amended complaint generally alleges that the Company and the individual defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by issuing false and misleading statements, and failing to disclose material adverse information relating, among other things, to certain matters and allegations concerning Mr. Madden. The plaintiff seeks an unspecified amount of damages, costs and expenses on behalf of the plaintiff and all other purchasers of the Company's common stock during the period June 21, 1997 through June 20, 2000. In January 2002, motions to dismiss the complaint were fully briefed. Since that time, a settlement in principle of these actions has been reached, subject to execution of definitive settlement documentation, notices to class members, a hearing and approval by the District Court. The tentative settlement is within the limits of insurance coverage (see Note J[7]).

[2] DERIVATIVE ACTIONS:

On or about September 26, 2000, a shareholders' derivative action was commenced in the United States District Court for the Eastern District of New York, captioned, Herrera v. Steven Madden and Steven Madden, Ltd. The Company is named as a nominal defendant in the action. The complaint seeks to recover alleged damages on behalf of the Company from Mr. Madden's June 20, 2000 indictment and to require him to disgorge certain profits, bonuses and stock option grants he received from the Company. On January 3, 2001, the plaintiff filed an amended complaint. On February 2, 2001, both the Company and Mr. Madden filed motions to dismiss the amended complaint because of the plaintiff's failure to make a pre-litigation demand upon the Company's Board of Directors. On October 1, 2001, plaintiff filed a second amended complaint. On November 2, 2001, the Company filed a motion to dismiss this pleading on the grounds that plaintiff had failed to make a pre-litigation demand upon the Company's board of directors. In February 2002, the magistrate judge filed a report recommending that the Company's motion to dismiss be denied. On March 4, 2002, the Company filed its objection to the Magistrate Judge's report. The Company believes, after consultation with counsel, that its defense costs and certain attorney fees in connection with this action will be subject to coverage by the Company's insurance as supplemented by the loss mitigation policy described below. The liability resulting from this derivative complaint, if any, cannot presently be determined.

In November 2001, a purported shareholder derivative complaint was filed in the United States District Court for the Eastern District of New York, captioned Herrera v. Karson, et al. Named as defendants therein are the Company (as nominal defendant) and certain of the Company's present and/or former directors. The complaint alleged that the individual defendants breached their fiduciary duties to the Company in connection with a decision by the Board of Directors of the Company to enter into an employment agreement with Mr. Steven Madden in May 2001. The complaint seeks declaratory and other equitable relief, as well as an unspecified amount of compensatory damages, costs and expenses. On or about February 1, 2002, plaintiff filed an Amended Shareholder Derivative Complaint (the "Amended Complaint"). The Amended Complaint contains substantially the same allegations and names the same defendants as the original complaint. The Company believes, after consultation with counsel, that its defense costs and certain attorney fees in connection with this action will be subject to coverage by the Company's insurance as supplemented by the loss mitigation policy described below. The liability resulting from this derivative complaint, if any, cannot presently be determined.

[3] OTHER MATTER:

In March 2001, the Company became aware that the SEC issued a formal order of investigation with respect to trading in the Company's securities. The SEC is investigating possible securities law violations. Certain officers and directors of the Company sold shares of the Company's common stock prior to Mr. Madden's indictment in June 2000, as previously disclosed on Form 4's filed with the SEC. The ultimate effects of this matter, if any, cannot reasonably be determined at this time.

NOTE J - COMMITMENTS, CONTINGENCIES AND OTHER (CONTINUED)

[4] BREACH OF CONTRACT SUITS:

On or about September 17, 2001, an action was commenced against the Company in the Supreme Court, Queens County, captioned Mitch Stewart v. Steven Madden, Ltd. Mr. Stewart is a former independent contractor for the Company. The complaint seeks damages of approximately \$1.3 million for breach of contract. On December 20, 2001, the Company answered the complaint, denying the allegations and asserting various affirmative defenses. On January 25, 2002, the plaintiff filed a motion for partial summary judgement, which is pending. The Company believes that it has substantial defenses to the motions and the claims asserted in the lawsuit. The resulting liability, if any, cannot be presently determined.

On or about November 29, 2001, an action was commenced against the Company for breach of contract in the United States District Court, Eastern District of Texas, captioned Lina Enterprises v. Steven Madden, Ltd. Lina is a former independent contractor for the Company. The complaint seeks damages for breach of contract. The complaint does not specify the amount of damages being sought, but alleges that they are greater than \$75,000. In March 2002, the Company filed a motion to dismiss the complaint. The Company believes that it has substantial defenses to the claims asserted in the lawsuit. The resulting liability, if any, cannot be presently determined.

[5] INDICTMENT:

On June 20, 2000, Steven Madden, the Company's former Chairman and Chief Executive Officer, was indicted in the United States District Courts for the Southern District and Eastern District of New York. The indictments alleged that Mr. Madden engaged in securities fraud and money laundering activities. In addition, the Securities and Exchange Commission filed a complaint in the United States District Court for the Eastern District of New York alleging that Mr. Madden violated Section 17(a) of the Securities Exchange Act of 1934, as amended. On May 21, 2001, Steven Madden entered into a plea agreement with the U.S. Attorney's Office, pursuant to which he pled guilty to four of the federal charges filed against him. In addition, Mr. Madden reached a separate settlement agreement with the Securities and Exchange Commission regarding the allegations contained in its complaint. As a result, Mr. Madden resigned as the Company's Chief Executive Officer and as a member of the Company's Board of Directors effective July 1, 2001. Mr. Madden has agreed to serve as the Company's Creative and Design Chief, a non-executive position. It is expected that Mr. Madden will be sentenced in April 2002. Under the settlement agreement with the Securities and Exchange Commission, Mr. Madden has agreed to not serve as an officer or director of a publicly traded company for 7 years. Neither the indictments nor the Securities and Exchange Commission complaint allege any wrongdoing by the Company or its other officers and directors.

[6] LITIGATION SETTLEMENTS:

Separate actions involving Magnum Fashions, Inc., WK Maxx Industries, Ltd. and Lee N' Gi were settled in 2000 for approximately \$175,000 and have been included in operating expenses.

NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2001 AND 2000

NOTE J - COMMITMENTS, CONTINGENCIES AND OTHER (CONTINUED)

[7] LOSS MITIGATION COVERAGE:

In December 2001, the Company purchased a loss mitigation policy to cover costs arising out of lawsuits related to the June 2000 federal indictment of Steve Madden, the Company's former Chief Executive Officer. The policy covers the Company's anticipated damages and legal costs in connection with such lawsuits. The Company is obligated to pay for damages and costs in excess of the policy limits. The cost of the policy was \$6,950,000 and has been classified as cost of loss mitigation coverage on the accompanying statement of operations for the year ended December 31, 2001.

[8] EMPLOYMENT AGREEMENTS:

The Company has an employment agreement with Steve Madden, its former CEO and President to serve as the Company's Creative and Design Chief. The employment agreement, as amended, provides for an annual salary of \$700,000 through June 30, 2011. The agreement also provides for an annual performance bonus, an annual option grant at exercise prices equal to market on the date of grant and a non-accountable expense allowance.

The Company has employment agreements with four other executives (the "executives") which expire between January 3, 2003 and December 31, 2005. These agreements provide for cash bonuses based upon earnings, option grants and non-accountable expense allowances as defined. Base salary commitment for these four executives, subject to increases, are as follows:

2000	\$	925,000
2003		658,000
2004		422,000
2005		240,000
		-----
	\$	2,245,000
		=====

In connection with their employment agreements, two of the executives received an aggregate of 20,000 shares of restricted common stock from the Company. The restricted shares vest over one year through July 2002. Accordingly, the Company has recorded a charge to operations in the amount of \$188,000 for the 10,000 shares that vested during the year ended December 31, 2001 and will record a charge of \$188,000 in 2002 for the grant of such restricted shares.

[9] LETTERS OF CREDIT:

At December 31, 2001 and 2000, the Company had open letters of credit for the purchase of imported inventories of approximately \$6,252,000 and \$6,142,000, respectively.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

NOTE J - COMMITMENTS, CONTINGENCIES AND OTHER (CONTINUED)

[10] CONCENTRATIONS:

The Company maintains cash and cash equivalents with various major financial institutions which at times are in excess of the amount insured.

During the year ended December 31, 2001, the Company purchased approximately 28% and 21% of their merchandise from two suppliers in Brazil and China, respectively. Total inventory purchases for the year ended December 31, 2001 from Brazil and China were approximately 28% and 53%, respectively.

During the year ended December 31, 2000, the Company purchased approximately 50% and 27% of their inventory from suppliers in China and Brazil, respectively.

During the year ended December 31, 1999, the Company purchased approximately 44%, 24% and 19% of their inventory from suppliers in China, Brazil and Mexico, respectively.

Sales to two customers amounted to 13% and 11% of net sales for the year ended December 31, 2001. Amounts receivable from these customers represented 18% and 15% of accounts receivable at December 31, 2001, respectively.

Sales to two customers amounted to 14% and 12% of net sales for the year ended December 31, 2000. Amounts receivable from these and another customer represented 22%, 21% and 12% of accounts receivable at December 31, 2000.

Sales to two customers amounted to 15% and 10% of net sales for the year ended December 31, 1999. Amounts receivable from these customers represented 22% and 14% of accounts receivable at December 31, 1999, respectively.

Sales to such customers are included in the wholesale segment (see Note K). Purchases are made primarily in United States dollars.

[11] CONSULTING AGREEMENT:

The Company has a consulting agreement with a financial advisory firm of which one of the Company's Board members is a managing director. The agreement provides for a fee of \$150,000 over the one year term of the agreement which expires in June 2002. The firm is to provide financial advisory and investment banking services to the Company. The Company recorded a charge to operations in the amount of \$75,000 for the year ended December 31, 2001 in connection with the agreement.

[12] VALUATION AND QUALIFYING ACCOUNTS:

The following is a summary of the allowance for doubtful accounts related to accounts receivable and the allowance for chargebacks related to the amount due from factor for the years ended December 31, :

	2001 -----	2000 -----	1999 -----
Balance at beginning of year	\$ 1,640,000	\$ 1,510,000	\$ 813,000
Charged to expense	219,000	506,000	757,000
Uncollectible accounts written off, net of recoveries	(215,000)	(376,000)	(60,000)
	-----	-----	-----
Balance at end of year	\$ 1,644,000 =====	\$ 1,640,000 =====	\$ 1,510,000 =====

## STEVEN MADDEN, LTD. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

## NOTE J - COMMITMENTS, CONTINGENCIES AND OTHER (CONTINUED)

## [12] Valuation and qualifying accounts: (continued)

The following is a summary of property and equipment and the related accounts of accumulated depreciation and amortization for the years ended December 31,:

	2001	2000	1999
	-----	-----	-----
Cost basis			
Balance at beginning of year	\$24,097,000	\$16,164,000	\$11,233,000
Additions	3,415,000	7,933,000	4,931,000
	-----	-----	-----
Balance at end of year	27,512,000	24,097,000	16,164,000
	-----	-----	-----
Accumulated depreciation and amortization			
Balance at beginning of year	8,497,000	5,050,000	2,242,000
Depreciation and amortization	3,308,000	3,447,000	2,808,000
	-----	-----	-----
Balance at end of year	11,805,000	8,497,000	5,050,000
	-----	-----	-----
Property and equipment, net	\$15,707,000	\$15,600,000	\$11,114,000
	=====	=====	=====

The following is a summary of cost in excess of fair value and related accumulated amortization for the years ended December 31,:

	2001	2000	1999
	-----	-----	-----
Cost basis			
Balance at beginning and end of year	\$ 2,780,000	\$ 2,780,000	\$ 2,780,000
	-----	-----	-----
Accumulated amortization			
Balance at beginning of year	575,000	436,000	297,000
Amortization	139,000	139,000	139,000
	-----	-----	-----
Balance at end of year	714,000	575,000	436,000
	-----	-----	-----
Cost in excess of fair value of net assets acquired	\$ 2,066,000	\$ 2,205,000	\$ 2,344,000
	=====	=====	=====

## NOTE K - OPERATING SEGMENT INFORMATION

The Company's reportable segments are primarily based on methods used to distribute its products. The wholesale and retail segments derive revenue from sales of women's, men's and girl's footwear. The wholesale segment, through sales to department and specialty stores, and the retail segment through operation of its own retail stores, derive revenue from sales of branded women's, men's and girl's footwear. 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 other 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 private label shoes.

## STEVEN MADDEN, LTD. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

## NOTE K - OPERATING SEGMENT INFORMATION (CONTINUED)

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on profit or loss from operations before interest income and interest expense and before income taxes. The following is information for the Company's reportable segments:

	Wholesale -----	Retail -----	Other -----	Consolidated -----
Year ended December 31, 2001:				
Net sales to external customers (a)	\$ 163,904,000	\$ 79,487,000		\$ 243,391,000
Gross profit	57,858,000	42,015,000		99,873,000
Commissions and licensing fees	1,711,000		\$ 4,200,000	5,911,000
Operating earnings (c)	10,095,000	7,023,000	2,244,000	19,362,000
Depreciation and amortization	869,000	2,577,000	1,000	3,447,000
Other significant noncash items:				
Deferred compensation	533,000			533,000
Deferred rent expense (reversal)	(21,000)	249,000	(3,000)	225,000
Provision for doubtful accounts	219,000			219,000
Segment assets (b)	90,061,000	30,922,000	879,000	121,862,000
Capital expenditures	551,000	2,864,000		3,415,000
Year ended December 31, 2000:				
Net sales to external customers (a)	135,481,000	69,632,000		205,113,000
Gross profit	50,680,000	38,938,000		89,618,000
Commissions and licensing fees	1,216,000		3,631,000	4,847,000
Operating earnings	15,996,000	8,001,000	1,635,000	25,632,000
Depreciation and amortization	1,000,000	2,581,000	5,000	3,586,000
Other significant noncash items:				
Deferred compensation	382,000			382,000
Deferred rent	(13,000)	310,000		297,000
Provision for doubtful accounts	463,000		43,000	506,000
Segment assets (b)	60,740,000	30,215,000	778,000	91,733,000
Capital expenditures	1,044,000	6,889,000		7,933,000
Year ended December 31, 1999:				
Net sales to external customers (a)	114,406,000	48,630,000		163,036,000
Gross profit	41,484,000	27,016,000		68,500,000
Commissions and licensing fees	807,000		2,560,000	3,367,000
Operating earnings	12,130,000	5,910,000	881,000	18,921,000
Depreciation and amortization	1,244,000	1,703,000	3,000	2,950,000
Other significant noncash items:				
Deferred compensation	382,000			382,000
Deferred rent	8,000	384,000		392,000
Provision for doubtful accounts	733,000		24,000	757,000
Segment assets (b)	61,713,000	13,500,000	2,922,000	78,135,000
Capital expenditures	1,092,000	3,810,000		4,902,000

(a) Attributed to the United States, based on the location in which the sale originated.

(b) All long-lived assets, consisting of property and equipment and cost in excess of fair value of net assets acquired, are located in the United States.

(c) Loss mitigation coverage expense of \$6,950,000 reflected in wholesale segment.



NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

## NOTE L - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended December 31, 2001 and 2000 (000's omitted):

	March 31	June 30	September 30	December 31
	-----	-----	-----	-----
2001:				
Revenue	\$ 53,395	\$ 59,563	\$ 70,245	\$ 60,188
Cost of sales	31,314	34,245	40,517	37,442
Commissions and licensing fee income	1,134	1,235	1,637	1,905
Net income (loss)	3,650	4,423	5,367	(1,324)
Net income (loss) per share:				
Basic	0.33	0.38	0.46	(0.11)
Diluted	0.29	0.34	0.41	(0.11)
2000:				
Revenue	44,109	48,057	60,108	52,839
Cost of sales	25,925	27,123	33,620	28,827
Commissions and licensing fee income	1,004	1,130	1,233	1,480
Net income	3,182	3,743	4,600	4,518
Net income per share:				
Basic	0.28	0.32	0.42	0.41
Diluted	0.24	0.28	0.38	0.38

(a)(2) Financial Statement Schedules

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are not applicable and therefore, have been omitted.

(b) Reports on Form 8-K

(1) Report on Form 8-K dated September 21, 2001 filed with the Securities and Exchange Commission on October 5, 2001 with respect to Item 5.

(1) Report on Form 8-K dated November 14, 2001 filed with the Securities and Exchange Commission on November 16, 2001 with respect to Item 5.

(c) Exhibits.

EXHIBITS

- 3.01\* Certificate of Incorporation of the Company.
  - 3.02 Amended & Restated By-Laws of the Company.
  - 4.01\* Specimen Certificate for shares of Common Stock.
  - 4.02\* Rights Agreement between the Company and American Stock Transfer and Trust Company.
  - 10.07\* Employment Agreement of Arvind Dharia.
  - 10.08\* Employment Agreement of Richard Olicker.
  - 10.09\* Second Amended Employment Agreement between the Company and Steven Madden.
  - 10.10\* Employment Agreement of Charles Koppelman.
  - 10.11\* Employment Agreement of Jamieson Karson.
  - 10.12\* Amendment No. 1 to Employment Agreement of Arvind Dharia.
  - 10.13\* Employment Agreement between Adesso-Madden, Inc. and Gerald Mongeluzo.
  - 10.14\* Employment Agreement between Steven Madden Retail, Inc. and Mark Jankowski.
  - 21.01\* Subsidiaries of Registrant.
  - 23.01 Consent of Richard A. Eisner & Company, LLP.
- \* Previously filed with the Securities and Exchange Commission.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. Dated: New York, New York March 29, 2002

STEVEN MADDEN, LTD.

By: /s/ JAMIESON KARSON

-----  
Jamieson Karson  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
-----	-----	-----
/s/ CHARLES KOPPELMAN ----- Charles Koppelman	Chairman of the Board and Executive Chairman	March 29, 2002
/s/ JAMIESON KARSON ----- Jamieson Karson	Chief Executive Officer and Vice Chairman of the Board	March 29, 2002
/s/ ARVIND DHARIA ----- Arvind Dharia	Chief Financial Officer and Director	March 29, 2002
/s/ GERALD MONGELUZO ----- Gerald Mongeluzo	Director	March 29, 2002
/s/ JOHN L. MADDEN ----- John L. Madden	Director	March 29, 2002
/s/ PETER MIGLIORINI ----- Peter Migliorini	Director	March 29, 2002
/s/ HEYWOOD WILANSKY ----- Heywood Wilansky	Director	March 29, 2002
/s/ MARC COOPER ----- Marc Cooper	Director	March 29, 2002

AMENDED & RESTATED  
BY-LAWS  
OF  
STEVEN MADDEN, LTD.

(a Delaware Corporation)  
ARTICLE I

STOCKHOLDERS

Section 1. Certificates Representing Stock. Certificates representing stock in the corporation shall be signed by, or in the name of, the corporation by the Chairman or Vice-Chairman of the Board of Directors, if any, or by the Chief Executive Officer, the President or a Vice-President and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the corporation. Any or all the signatures on any such certificate may be a facsimile. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent, or registrar at the date of issue.

Whenever the corporation shall be authorized to issue more than one class of stock or more than one series of any class of stock, and whenever the corporation shall issue any shares of its stock as partly paid stock, the certificates representing shares of any such class or series or of any such partly paid stock shall set forth thereon the statements prescribed by the General Corporation Law. Any restrictions on the transfer or registration of transfer of any shares of stock of any class or series shall be noted conspicuously on the certificate representing such shares.

The corporation may issue a new certificate of stock or uncertificated shares in place of any certificate theretofore issued by it, alleged to have been lost, stolen, or destroyed, and the Board of Directors may require the owner of the lost, stolen, or destroyed certificate, or his legal representative, to give the corporation a bond sufficient to indemnify the corporation against any claim that may be made against it on account of the alleged loss, theft, or destruction of any such certificate or the issuance of any such new certificate or uncertificated shares.

Section 2. Uncertificated Shares. Subject to any conditions imposed by the General Corporation Law, the Board of Directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of the stock of the corporation shall be uncertificated shares. Within a reasonable time after the issuance or transfer of any uncertificated shares, the corporation shall send to the registered owner thereof any written notice prescribed by the General Corporation Law.

Section 3. Fractional Share Interests. The corporation may, but shall not be required to, issue fractions of a share. If the corporation does not issue fractions of a share, it shall (1) arrange for the disposition of fractional interests by those entitled thereto, (2) pay in cash the fair value of fractions of a share as of the time when those entitled to receive such

fractions are determined, or (3) issue scrip or warrants in registered form (either represented by a certificate or uncertificated) or bearer form (represented by a certificate) which shall entitle the holder to receive a full share upon the surrender of such scrip or warrants aggregating a full share. A certificate for a fractional share or an uncertificated fractional share shall, but scrip or warrants shall not unless otherwise provided therein, entitle the holder to exercise voting rights, to receive dividends thereon, and to participate in any of the assets of the corporation in the event of liquidation. The Board of Directors may cause scrip or warrants to be issued subject to the conditions that they shall become void if not exchanged for certificates representing the full shares or uncertificated full shares before a specified date, or subject to the conditions that the shares for which scrip or warrants are exchangeable may be sold by the corporation and the proceeds thereof distributed to the holders of scrip or warrants, or subject to any other conditions which the Board of Directors may impose.

Section 4. Stock Transfers. Upon compliance with provisions restricting the transfer or registration of transfer of shares of stock, if any, transfers or registration of transfers of shares of stock of the corporation shall be made only on the stock ledger of the corporation by the registered holder thereof, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the corporation or with a transfer agent or a registrar, if any, and, in the case of shares represented by certificates, on surrender of the certificate or certificates for such shares of stock properly endorsed and the payment of all taxes due thereon.

Section 5. Record Date for Stockholders. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than sixty nor less than ten days before the

date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting. In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion, or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 6. Meaning of Certain Terms. As used herein in respect of the right to notice of a meeting of stockholders or a waiver thereof or to participate or vote thereat or to consent or dissent in writing in lieu of a meeting, as the case may be, the term "share" or "shares" or "share of stock" or "shares of stock" or "stockholder" or "stockholders" refers to an outstanding share or shares of stock and to a holder or holders of record of outstanding shares of

stock when the corporation is authorized to issue only one class of shares of stock, and said reference is also intended to include any outstanding share or shares of stock and any holder or holders of record of outstanding shares of stock of any class upon which or upon whom the certificate of incorporation confers such rights where there are two or more classes or series of shares of stock or upon which or upon whom the General Corporation Law confers such rights notwithstanding that the certificate of incorporation may provide for more than one class or series of shares of stock, one or more of which are limited or denied such rights thereunder; provided, however, that no such right shall vest in the event of an increase or a decrease in the authorized number of shares of stock of any class or series which is otherwise denied voting rights under the provisions of the certificate of incorporation, except as any provision of law may otherwise require.

Section 7. Stockholder Meetings.

(a) Time.

(i) Annual Meetings. The annual meeting shall be held on the date and at the time fixed, from time to time, by the directors, provided, that the first annual meeting shall be held on a date within thirteen months after the organization of the corporation, and each successive annual meeting shall be held on a date within thirteen months after the date of the preceding annual meeting.

(ii) Special Meetings. Except as otherwise required by applicable law or the corporation's certificate of incorporation, special meetings of the stockholders for any purpose or purposes may be called only by the directors pursuant to a resolution adopted by a majority of the members of the Board of Directors then in office. Only such business as is specified in the notice of any special meeting of the stockholders shall come before such meeting

(b) Place. Annual meetings and special meetings shall be held at such place, within or without the State of Delaware, as the directors may, from time to time, fix. Whenever the directors shall fail to fix such place, the meeting shall be held at the registered office of the corporation in the State of Delaware.

(c) Notice or Waiver of Notice; Adjournment. Written notice of all stockholder meetings shall be given, stating the place, date, and hour of the meeting and stating the place within the city or other municipality or community at which the list of stockholders of the corporation may be examined. The notice of an annual meeting shall state that the meeting is called for the election of directors and for the transaction of other business which may properly come before the meeting, and shall (if any other action which could be taken at a special meeting is to be taken at such annual meeting) state the purpose or purposes. The notice of a special meeting shall in all instances state the purpose or purposes for which the meeting is called. The notice of any meeting shall also include, or be accompanied by, any additional statements, information, or documents prescribed by the General Corporation Law. Except as otherwise provided by the General Corporation Law, a copy of the notice of any meeting shall be given, personally or by mail, not less than ten days nor more than sixty days before the date of the meeting, unless the lapse of the prescribed period of time shall have been waived, and directed to

each stockholder at his record address or at such other address which he may have furnished by request in writing to the Secretary of the corporation. Notice by mail shall be deemed to be given when deposited, with postage thereon prepaid, in the United States mail. The chairman of the meeting (as determined in paragraph (e) below), or the holders of a majority of the votes entitled to be cast by the stockholders who are present in person or by proxy, may adjourn the meeting without notice other than announcement at the meeting, whether or not a quorum is present. If a meeting is adjourned to another time, not more than thirty days hence, and/or to another place, and if an announcement of the adjourned time and/or place is made at the meeting, it shall not be necessary to give notice of the adjourned meeting unless the directors, after adjournment, fix a new record date for the adjourned meeting. Notice need not be given to any stockholder who submits a written waiver of notice signed by him before or after the time stated therein. Attendance of a stockholder at a meeting of stockholders shall constitute a waiver of notice of such meeting, except when the stockholder attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice.

(d) Stockholder List. The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city or other municipality or community where the meeting is to be held, which place shall be specified in the notice of the meeting, or if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. The stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by this section or the books of the corporation, or to vote at any meeting of stockholders.

(e) Conduct of Meeting. At each meeting of the stockholders, the Chairman of the Board, if any, shall serve as chairman of the meeting, or in the absence of the Chairman of the Board, one of the following officers in the order of seniority shall serve as chairman of the meeting: the Vice-Chairman of the Board, if any, the Chief Executive Officer, the President or a Vice-President. If none of the foregoing is in office and present and acting, a person chosen by the stockholders shall serve as chairman of the meeting. The order of business at each such meeting shall be as determined by the chairman of the meeting. The chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts and things as are necessary or desirable for the proper conduct of the meeting, including, without limitation, the establishment of procedures for the maintenance of order and safety, limitations on the time allotted to questions or comments on the affairs of the corporation, restrictions on entry to such meeting after the time prescribed for the commencement thereof, and the opening and closing of the voting polls. The Secretary of the corporation, or in his absence, an Assistant Secretary, shall act as secretary of every meeting, but if neither the

Secretary nor an Assistant Secretary is present the chairman of the meeting shall appoint a secretary of the meeting.

(f) Business to be Brought Before an Annual Meeting of Stockholders.

(i) To be properly brought before the annual meeting of stockholders, business must be either (A) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (B) otherwise properly brought before the meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (C) otherwise properly brought before the meeting by any stockholder of the corporation (1) who is a stockholder of record on the date of the giving of the notice provided for in this Section 7(f) of Article I and on the record date for the determination of stockholders entitled to vote at such meeting and (2) who complies with the notice procedures set forth in Section 7(f)(ii) of this Article I. In addition to any other applicable requirements, including but not limited to the requirements of Rule 14a-8 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for business to be properly brought before an annual meeting by a stockholder pursuant to clause (C) of this Section 7(f)(i) of Article I, such stockholder must have given timely notice thereof in proper written form to the Secretary of the corporation.

(ii) To be timely, a stockholder's notice to the Secretary pursuant to clause (C) of Section 7(f)(i) of this Article I must be delivered to or mailed and received at the principal executive offices of the corporation, not less than 120 days nor more than 150 days prior to the anniversary date of the immediately preceding annual meeting of stockholders; provided, however, that in the event that the annual meeting is called for a date that is not within 30 days before or after such anniversary date, notice by the stockholder in order to be timely must be so received no later than the close of business on the tenth day following the day on which such notice of the date of the annual meeting is mailed or such public disclosure of the date of the annual meeting is made, whichever first occurs.

(iii) Subject to Section 5 of Article II, to be in proper written form, a stockholder's notice to the Secretary pursuant to clause (C) of Section 7(f)(i) of this Article I must set forth as to each matter such stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting and, in the event that such item of business shall include a proposal to amend these By-laws, the text of the proposed amendment (ii) the name and record address of such stockholder and all persons or entities acting in concert with the stockholder, (iii) the class or series and number of shares of capital stock of the corporation which are owned beneficially or of record by such stockholder, together with evidence reasonably satisfactory to the Secretary of such beneficial ownership, (iv) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business and (v) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring



such business before the meeting. If such stockholder does not appear or send a qualified representative to present such proposal at such annual meeting, the corporation need not present such proposal for a vote at such meeting, notwithstanding that proxies in respect of such vote may have been received by the corporation.

(iv) Notwithstanding anything in these By-laws to the contrary, no business shall be conducted at the annual meeting of stockholders except business brought before such meeting in accordance with the procedures set forth in this Section 7(f) of Article I; provided, however, that, once business has been properly brought before such meeting in accordance with such procedures, nothing in this Section 7(f) of Article I shall be deemed to preclude discussion by any stockholder of any such business. If the chairman of such meeting determines that business was not properly brought before the meeting in accordance with the foregoing procedures, the chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

(g) Proxy Representation. Every stockholder may authorize another person or persons to act for him by proxy in all matters in which a stockholder is entitled to participate, whether by waiving notice of any meeting, voting or participating at a meeting, or expressing consent or dissent without a meeting. Every proxy must be signed by the stockholder or by his attorney-in-fact. No proxy shall be voted or acted upon after three years from its date unless such proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and, if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the corporation generally.

(h) Inspectors. The directors, in advance of any meeting, may, but need not, appoint one or more inspectors of election to act at the meeting or any adjournment thereof. If an inspector or inspectors are not appointed, the chairman of the meeting may, but need not, appoint one or more inspectors. In case any person who may be appointed as an inspector fails to appear or act, the vacancy may be filled by appointment made by the directors in advance of the meeting or at the meeting by the chairman of the meeting. Each inspector, if any, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspectors at such meeting with strict impartiality and according to the best of his ability. The inspectors, if any, shall determine the number of shares of stock outstanding and the voting power of each, the shares of stock represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots, or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots, or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the chairman of the meeting, the inspector or inspectors, if any, shall make a report in writing of any challenge, question, or matter determined by him or them and execute a certificate of any fact found by him or them.

(i) Quorum. The holders of a majority of the votes entitled to be cast by the stockholders entitled to vote generally, present in person or by proxy, shall constitute a quorum for the transaction of business at any meeting of the stockholders; provided, however, that in the

case of any vote to be taken by classes, the holders of a majority of the votes entitled to be cast by the stockholders of a particular class shall constitute a quorum for the transaction of business by such class.

(j) Voting.

(i) Except as otherwise provided by General Corporation Law or by the corporation's certificate of incorporation, each stockholder of record of any class or series of capital stock of the corporation shall be entitled at each meeting of stockholders to such number of votes for each share of such stock as may be fixed in the corporation's certificate of incorporation or in the resolution or resolutions adopted by the Board of Directors providing for the issuance of such stock, registered in such stockholder's name on the books of the corporation on the record date (as determined in accordance with Section 5 of Article I).

(ii) At each meeting of the stockholders, all corporate actions to be taken by vote of the stockholders (except as otherwise required by applicable law and except as otherwise provided in the corporation's certificate of incorporation or these By-laws) shall be authorized by a majority of the votes cast by the stockholders entitled to vote thereon who are present in person or represented by proxy, and where a separate vote by class is required, a majority of the votes cast by the stockholders of such class who are present in person or represented by proxy shall be the act of such class.

(iii) Directors shall be elected by a plurality of the votes cast by the stockholders entitled to vote thereon who are present in person or represented by proxy.

(iv) Unless required by applicable law or determined by the chairman of the meeting to be advisable, the vote on any matter, including the election of directors, need not be by written ballot. In the case of a vote by written ballot, each ballot shall be signed by the stockholder voting, or by such stockholder's proxy.

Section 8. Action by Written Consent of Stockholders.

(a) Anything in these By-laws to the contrary notwithstanding, any action required by the General Corporation Law to be, or which may be, taken at any annual or special meeting of the stockholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed in person or by proxy by the holder of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and if the procedures in this Section 8 of Article I shall be complied with.

(b) A record date for determining stockholders entitled to express consent to stockholder action in writing without a meeting shall be fixed by the Board of Directors of the corporation (a "Consent Record Date"). Any stockholder seeking to have the stockholders authorize or take action by written consent without a meeting shall give written notice either by personal delivery or by United States mail, postage prepaid, to the Secretary, of the intent of such stockholder to take action by written consent, which notice shall request that the Board of

Directors fix a Consent Record Date. The Board of Directors shall, within 10 days of the receipt of such notice, fix as the Consent Record Date a date which shall not precede the date upon which the resolution fixing the Consent Record Date shall be adopted by the Board of Directors and which shall not be more than 10 days after the date upon which such resolution shall have been adopted. If the Board of Directors fails to fix a record date as provided in this Section 8 of Article I, then the record date shall be the day on which the first written consent is duly delivered pursuant to Section 213(b) (or its successor provision) of the General Corporation Law, or, if prior action is required by the Board of Directors with respect to the matter to be acted upon by written consent without a meeting, the record date shall be the close of business on the day on which the Board of Directors adopts the resolution taking such prior action.

(c) Every written consent pursuant to this Section 8 of Article I shall bear the date of signature of each stockholder who shall sign such consent and no written consent shall be effective to take the corporate action referred to therein unless, within 60 days of the date of the earliest dated consent delivered to the corporation in the manner required by this Section 8 of Article I, written consents signed by a sufficient number of stockholders to take action shall be delivered to the corporation by delivery to its registered office in the State of Delaware, to its principal place of business or to an officer or agent of the corporation having custody of the books in which meetings and proceedings of the stockholders shall be recorded. Delivery made to said registered office of the corporation shall be by hand or by certified or registered mail, return receipt requested.

(d) In the event of the delivery to the corporation of a written consent or consents purporting to represent the requisite voting power to authorize or take corporate action and/or related revocations, the Secretary of the corporation shall provide for the safekeeping of such consents and revocations and shall promptly engage nationally recognized independent inspectors of election for the purpose of promptly performing a ministerial review of the validity of the consents and revocations. No action by written consent without a meeting shall be effective until such inspectors of election have completed their review, determined that the requisite number of valid and unrevoked consents has been obtained to authorize or take the action specified in the consents and certified such determination for entry in the records of the corporation kept for the purpose of recording the proceedings of meetings of stockholders.

(e) Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who shall not have consented in writing.

## ARTICLE II

### DIRECTORS

Section 1. Functions and Definition. The business and affairs of the corporation shall be managed by or under the direction of the Board of Directors of the corporation. The Board of Directors shall have the authority to fix the compensation of the members thereof. The use of the phrase "whole board" herein refers to the total number of directors which the corporation would have if there were no vacancies.

Section 2. Qualifications and Number. A director need not be a stockholder, a citizen of the United States, or a resident of the State of Delaware. The initial Board of Directors shall consist of two persons. Thereafter the number of directors constituting the whole board shall be at least one. Subject to the foregoing limitation and except for the first Board of Directors, such number may be fixed from time to time by action of the directors, or, if the number is not fixed, the number shall be two. The number of directors may be increased or decreased by action of the directors.

Section 3. Election and Term. The first Board of Directors, unless the members thereof shall have been named in the certificate of incorporation, shall be elected by the incorporator or incorporators and shall hold office until the first annual meeting of stockholders and until their successors are elected and qualified or until their earlier resignation or removal. Any director may resign at any time upon written notice to the corporation. Thereafter, directors who are elected at an annual meeting of stockholders, and directors who are elected in the interim to fill vacancies and newly created directorships, shall hold office until the next annual meeting of stockholders and until their successors are elected and qualified or until their earlier resignation or removal.

Section 4. Vacancies. Subject to the rights of the holders of any class or series of stock having a preference over the common stock of the corporation as to dividends or upon liquidation, any vacancies on the Board of Directors resulting from death, resignation, removal or other cause, and newly created directorships resulting from any increase in the number of directors shall be filled exclusively by the Board of Directors (and not by the stockholders), acting by a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors, or by a sole remaining director, and any directors so appointed shall hold office until the next annual meeting and until his or her successor shall be duly elected and shall have qualified, unless sooner displaced as provided by the General Corporation Law.

Section 5. Notification of Nomination.

(a) Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the corporation, except as may be otherwise provided in the certificate of incorporation with respect to the right of holders of preferred stock of the corporation to nominate and elect a specified number of directors in certain circumstances. Nominations of persons for election to the Board of Directors may be made at any annual meeting of stockholders, or at any special meeting of stockholders called for the purpose of electing directors, (i) by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (ii) by any stockholder of the corporation (A) who is a stockholder of record on the date of the giving of the notice provided for in this Section 5 of Article II and on the record date for the determination of stockholders entitled to vote at such meeting and (B) who complies with the notice procedures set forth in Section 5(b) of this Article II. In addition to any other applicable requirements, for a nomination to be made by a stockholder pursuant to clause (ii) of this Section 5(a) of Article II, such stockholder must have given timely notice thereof in proper written form to the Secretary of the corporation.

(b) To be timely, a stockholder's notice to the Secretary pursuant to clause (ii) of Section 5(a) of this Article II must be delivered to or mailed and received at the principal executive offices of the corporation (i) in the case of an annual meeting, not less than 120 days nor more than 150 days prior to the anniversary date of the immediately preceding annual meeting of stockholders; provided, however, that in the event that the annual meeting is called for a date that is not within 30 days before or after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of the annual meeting is mailed or such public disclosure of the date of the annual meeting is made, whichever first occurs, or (ii) in the case of a special meeting of stockholders called for the purpose of electing directors, not later than the close of business on the tenth day following the day on which notice of the date of the special meeting is mailed or public disclosure of the date of the special meeting is made, whichever first occurs.

(c) To be in proper written form, a stockholder's notice to the Secretary pursuant to clause (ii) of Section 5(a) of this Article II must set forth (i) as to each person whom the stockholder proposes to nominate for election as a director, (A) the name, age, business address and residence address of the person, (B) the business experience during the past five years of such person, including his or her principal occupation or employment during such period, the name and principal business of any corporation or other organization in which such occupations and employment were carried on, and such other information as to the nature of his or her responsibilities and level of professional competence as may be sufficient to permit assessment of his or her prior business experience, (C) the class or series and number of shares of capital stock of the corporation which are owned beneficially or of record by the person and (D) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder; and (ii) as to the stockholder giving the notice, (A) the name and address of such stockholder and of all persons or entities acting in concert with the stockholder, (B) the name and address of such stockholder as they appear on the corporation's books (if they so appear), (C) the class or series and number of shares of capital stock of the corporation which are owned beneficially or of record by such stockholder, together with evidence reasonably satisfactory to the Secretary of such beneficial ownership, (D) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder, (E) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice and (F) any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected.

(d) No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth in this Section 5 of Article II. If the chairman of the meeting determines that a nomination was not made in accordance with the

foregoing procedures, the chairman of the meeting shall declare to the meeting that the nomination was defective and such defective nomination shall be disregarded.

#### Section 6. Meetings.

(a) Time. Meetings shall be held at such time as the Board of Directors shall fix, except that the first meeting of a newly elected Board of Directors shall be held as soon after its election as the directors may conveniently assemble.

(b) Place. Meetings shall be held at such place within or without the State of Delaware as shall be fixed by the Board of Directors.

(c) Call. No call shall be required for regular meetings for which the time and place have been fixed. Special meetings may be called by or at the direction of the Chairman of the Board, if any, the Vice-Chairman of the Board, if any, the Chief Executive Officer or the President, or of a majority of the directors in office.

(d) Notice or Actual or Constructive Waiver. No notice shall be required for regular meetings for which the time and place have been fixed. Written, oral, or any other mode of notice of the time and place shall be given for special meetings in sufficient time for the convenient assembly of the directors thereat. Notice need not be given to any director or to any member of a committee of directors who submits a written waiver of notice signed by him before or after the time stated therein. Attendance of any such person at a meeting shall constitute a waiver of notice of such meeting, except when he attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors need be specified in any written waiver of notice.

(e) Quorum and Action. A majority of the whole Board of Directors shall constitute a quorum except when a vacancy or vacancies prevents such majority, whereupon a majority of the directors in office shall constitute a quorum, provided, that such majority shall constitute at least one-third of the whole Board of Directors. A majority of the directors present, whether or not a quorum is present, may adjourn a meeting to another time and place. Except as herein otherwise provided, and except as otherwise provided by the General Corporation Law, the vote of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors. The quorum and voting provisions herein stated shall not be construed as conflicting with any provisions of the General Corporation Law and these By-laws which govern a meeting of directors held to fill vacancies and newly created directorships in the Board of Directors or action of disinterested directors.

Any member or members of the Board of Directors or of any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors, or any such committee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other.

(f) Chairman of Meetings of Board of Directors. The Chairman of the Board, if any and if present and acting, shall preside at all meetings. Otherwise, the Vice-Chairman of

the Board, if any and if present and acting, the Chief Executive Officer, if present and acting, or the President, if present and acting, or any other director chosen by the Board of Directors, shall preside.

Section 7. Removal of Directors. Except as may otherwise be provided by the General Corporation Law, any director or the entire Board of Directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors.

Section 8. Committees. The Board of Directors may, by resolution passed by a majority of the whole Board of Directors, designate one or more committees, each committee to consist of one or more of the directors of the corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of any member of any such committee or committees, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors, shall have and may exercise the powers and authority of the Board of Directors in the management of the business and affairs of the corporation with the exception of any authority the delegation of which is prohibited by Section 141 of the General Corporation Law, and may authorize the seal of the corporation to be affixed to all papers which may require it.

Section 9. Written Action. Any action required or permitted to be taken at any meeting of the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board of Directors or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or committee.

### ARTICLE III

#### OFFICERS

The officers of the corporation shall consist of a Chief Executive Officer, a President, a Chief Financial Officer, a Secretary, and, if deemed necessary, expedient, or desirable by the Board of Directors, a Chairman of the Board, a Vice-Chairman of the Board, an Executive Vice-President, one or more other Vice-Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers with such titles as the resolution of the Board of Directors choosing them shall designate. Except as may otherwise be provided in the resolution of the Board of Directors choosing him, no officer other than the Chairman, Vice-Chairman of the Board, if any, need be a director. Any number of offices may be held by the same person, as the directors may determine.

Unless otherwise provided in the resolution choosing him, each officer shall hold his office for such term as may be prescribed by the Board of Directors and until such person's

successor shall have been chosen and shall qualify, or until such person's death or resignation, or until such person's removal in the manner hereinafter provided.

All officers of the corporation shall have such authority and perform such duties in the management and operation of the corporation as shall be prescribed in the resolutions of the Board of Directors designating and choosing such officers and prescribing their authority and duties, and shall have such additional authority and duties as are incident to their office except to the extent that such resolutions may be inconsistent therewith. The Secretary or an Assistant Secretary of the corporation shall record all of the proceedings of all meetings and actions in writing of stockholders, directors, and committees of directors, and shall exercise such additional authority and perform such additional duties as the Board of Directors shall assign to him. Any officer may be removed, with or without cause, by the Board of Directors. Any vacancy in any office may be filled by the Board of Directors.

#### ARTICLE IV

##### CORPORATE SEAL

The corporate seal shall be in such form as the Board of Directors shall prescribe.

#### ARTICLE V

##### FISCAL YEAR

The fiscal year of the corporation shall be fixed, and shall be subject to change, by the Board of Directors.

#### ARTICLE VI

##### CONTROL OVER BY-LAWS

Subject to the provisions of the certificate of incorporation and the provisions of the General Corporation Law, these By-laws may be altered, amended or repealed in whole or in part, and new By-laws may be adopted, by the Board of Directors at any regular or special meeting of the Board of Directors.



INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the Registration Statements of Steven Madden, Ltd. on Form S-8 (333-68712), Form S-8 (333-40924), Form S-3 (333-91127), Form S-8 (333-86903), Form S-8 (333-59995), Form S-3/A (333-59295), Form S-3/A (333-46441), Form S-8 (333-39335), Form S-8 (333-16381), and Form S-8 (333-05773) of our report dated February 22, 2002 (with respect to Notes J[1] and J[2], March 4, 2002) on our audit of the consolidated financial statements of Steven Madden, Ltd. and subsidiaries included in its 2001 Annual Report on Form 10-K.

We also consent to the reference to our firm in the Registration Statements on Form S-3 under the caption experts.

/s/ Richard A. Eisner & Company, LLP  
New York, New York  
March 29, 2002