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

FORM 10-Q

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

For the quarterly period ended March 31, 2002

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

For the transition period from ____________________ to _____________________

Commission File Number 0-23702

STEVEN MADDEN, LTD.
(Exact name of Registrant as specified in its charter)

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Class	Outstanding as of May 9, 2002
Common Stock	12,408,116

STEVEN MADDEN, LTD.
FORM 10-Q
QUARTERLY REPORT
March 31, 2002

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STEVEN MADDEN, LTD. AND SUBSIDIARIES

Consolidated Balance Sheets
(in thousands)

	March 31, 2002 (unaudited)	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,186	$ 50,179
Marketable securities	511	
Accounts receivable - net of allowances of $291 and $257	2,588	2,072
Due from factor - net of allowances of $1,443 and $1,387	36,287	22,783
Inventories	15,608	15,818
Prepaid expenses and other current assets	1,348	836
Prepaid taxes	5,136	7,911
Deferred taxes	1,223	1,223
Total current assets	95,887	100,822
Marketable securities	5,703	
Property and equipment, net	15,616	15,707
Deferred taxes	3,019	3,019
Deposits and other	302	248
Cost in excess of fair value of net assets acquired - net of accumulated amortization of $714	2,066	2,066
	$ 122,593	$ 121,862
LIABILITIES		
Current liabilities:		
Current portion of lease payable	$ 42	$ 43
Accounts payable	7,543	6,836
Accrued expenses	4,230	10,898
Accrued bonuses	674	412
Total current liabilities	12,489	18,189
Deferred rent	1,353	1,299
Lease payable, less current portion		14
	13,842	19,502
Contingencies (Note D)		
STOCKHOLDERS' EQUITY		
Common stock - $.0001 par value, 60,000 shares authorized, 12,408 and 12,194 outstanding	1	1
Additional paid-in capital	62,806	60,643
Retained earnings	54,975	50,881
Unearned compensation	(1,040)	(1,174)
Treasury stock at cost - 1,245 shares	(7,991)	(7,991)
	108,751	102,360
	$ 122,593	$ 121,862

See notes to financial statements

STEVEN MADDEN, LTD. AND SUBSIDIARIES

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

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Net sales:		
Wholesale	$ 47,835	$ 38,303
Retail	18,776	15,092
	66,611	53,395
Cost of sales:		
Wholesale	31,529	24,613
Retail	8,541	6,701
	40,070	31,314
Gross profit	26,541	22,081
Commission and licensing fee income	1,244	1,134
Operating expenses	(20,932)	(17,415)
Income from operations	6,853	5,800
Interest income, net	204	501
Income before provision for income taxes	7,057	6,301
Provision for income taxes	2,964	2,651
Net income	$ 4,093	$ 3,650
Basic income per share	$ .33	$ .33
Diluted income per share	$ .30	$ .29
Weighted average common shares outstanding - basic	12,352	11,160
Effect of dilutive securities - options and warrants	1,188	1,247
Weighted average common shares outstanding - diluted	13,540	12,407

See notes to financial statements

STEVEN MADDEN, LTD. AND SUBSIDIARIES

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

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Cash flows from operating activities:		
Net income	$ 4,093	$ 3,650
Adjustments to reconcile net income to net cash used in operating activities:		
Issuance of compensatory stock options		110
Depreciation and amortization	802	781
Deferred compensation	462	32
Provision for bad debts	90	(161)
Deferred rent expense	54	62
Changes in:		
Accounts receivable	(550)	1,020
Due from factor	(13,560)	(11,856)
Inventories	210	(520)
Prepaid expenses and other assets	2,213	8
Accounts payable and accrued expenses	(5,702)	(3,784)
Net cash used in operating activities	(11,888)	(10,658)
Cash flows from investing activities:		
Purchase of property and equipment	(711)	(603)
Purchase of marketable securities	(6,214)	
Net cash used in investing activities	(6,925)	(603)
Cash flows from financing activities:		
Proceeds from options and warrants exercised	1,835	1,680
Repayment of lease obligations	(15)	(24)
Net cash provided by financing activities	1,820	1,656
Net decrease in cash and cash equivalents	(16,993)	(9,605)
Cash and cash equivalents - beginning of period	50,179	35,259
Cash and cash equivalents - end of period	$ 33,186	$ 25,654

See notes to financial statements

Notes to Financial Statements
March 31, 2002

NOTE A - BASIS OF REPORTING

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the financial position of Steven Madden, Ltd. and subsidiaries (the "Company") as of March 31, 2002, and the results of their operations and cash flows for the three-month period then ended. The results of operations for the three-month period ended March 31, 2002 are not necessarily indicative of the operating results for the full year. It is suggested that these financial statements be read in conjunction with the financial statements and related disclosures for the year ended December 31, 2001 included in the Annual Report of Steven Madden, Ltd. on Form 10-K.

NOTE B - INVENTORIES

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

NOTE C - NET INCOME PER SHARE OF COMMON STOCK

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 options and warrants and the proceeds thereof were used to purchase outstanding common shares.

NOTE D - NEW ACCOUNTING STANDARDS

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 requires that goodwill and intangibles with indeterminate lives no longer be amortized, but instead tested for impartment. 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 adopted SFAS No. 142 in 2002 and accordingly no amortization expense has been recorded for the quarter ended March 31, 2002.

NOTE E - PENDING LITIGATION

[1] 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. On April 4, 2002, Mr. Madden was sentenced in the United States District Court for the Southern District of New York to forty-one (41) months imprisonment in connection with two of the federal charges to which he pled guilty. On May 3, 2002, Mr. Madden was sentenced in the United States District Court for the Eastern District of New York to forty-one (41) months imprisonment in connection with the remaining two charges to which he pled guilty. The sentences will run concurrently. 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.

[2] 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.

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 described above.

NOTE E - PENDING LITIGATION (CONTINUED)

[3] Shareholder derivative actions

On or about September 26, 2000, a putative shareholder 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. On March 22, 2002, the District Judge entered an order adopting the Magistrate Judge's report and recommendation in full. Since that time, an agreement in principle has been reached to resolve all claims in this action, subject to execution of definitive documentation, such notice to the Company's shareholders (if any) as may be required by the District Court, and approval by the District Court. 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. Since that time, an agreement in principle has been reached to resolve all claims in this action, subject to execution of definitive documentation, such notice to the Company's shareholders (if any) as may be required by the District Court, and approval by the District Court. 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.

[4] SEC investigation:

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 E - PENDING LITIGATION (CONTINUED)

[5] 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. On April 4, 2002, the Company filed a motion for partial summary judgement, which is also 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. On April 4, 2002, the plaintiff cross-moved for summary judgement. The Company believes that it has substantial defenses to the claims asserted in the lawsuit.

On or about January 22, 2002, an action was commenced against the Company in the United States District Court for the District of Oregon, captioned Adidas America, Inc. and Adidas Salomon AG v. Steven Madden, Ltd. and Steve Madden Retail, Inc. The complaint seeks injunctive and unspecified monetary damages for trademark infringement, trademark dilution, unfair competition and deceptive trade practices. The Company believes that it has substantial defenses to the claims asserted in the lawsuit.

ITEM 2.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the 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 Three Months Ended March 31 ($ in thousands)				
Consolidated:	2002		2001	
Net Sales	$66,611	100%	$53,395	100%
Cost of Sales	40,070	60	31,314	59
Other Operating Income	1,244	2	1,134	2
Operating Expenses	20,932	31	17,415	33
Income from Operations	6,853	10	5,800	11
Interest and Other Income Net	204	0	501	1
Income Before Income Taxes	7,057	11	6,301	12
Net Income	4,093	6	3,650	7

Percentage of Net Sales

Three Months Ended

March 31

($ in thousands)

By Segment	2002		2001	
WHOLESALE DIVISIONS:				
Steven Madden, Ltd.				
Net Sales	$22,881	100%	$23,076	100%
Cost of Sales	15,545	68	14,668	64
Other Operating Income	321	1	222	1
Operating Expenses	6,003	26	6,307	27
Income from Operations	1,654	7	2,323	10
l.e.i. Footwear:				
Net Sales	$11,575	100%	$ 9,745	100%
Cost of sales	7,501	65	6,336	65
Operating Expenses	2,778	24	1,873	19
Income from Operations	1,296	11	1,536	16
Madden Mens:				
Net Sales	$ 7,449	100%	$ 910	100%
Cost of sales	4,703	63	591	65
Operating Expenses	1,401	19	359	40
Income (Loss) from Operations	1,345	18	(40)	(4)
Diva Acquisition Corp:				
Net Sales	$ 2,485	100%	$ 1,779	100%
Cost of sales	1,646	66	1,243	70
Operating Expenses	535	22	387	22
Income from Operations	304	12	149	8
Stevies Inc.:				
Net Sales	$ 3,445	100%	$ 2,793	100%
Cost of sales	2,134	62	1,775	64
Other Operating Income	9	0	104	4
Operating Expenses	745	22	565	20
Income from Operations	575	17	557	20
STEVEN MADDEN RETAIL INC.:				
Net Sales	$18,776	100%	$15,092	100%
Cost of Sales	8,541	45	6,701	44
Operating Expenses	8,942	48	7,572	50
Income from Operations	1,293	7	819	5

Percentage of Net Sales

Three Months Ended

March 31

($ in thousands)

By Segment (Continued)

ADESSO MADDEN INC.: (FIRST COST)	2002		2001	
Other Operating Revenue	$ 914	100%	$ 808	100%
Operating Expenses	528	58	352	44
Income from Operations	386	42	456	56

RESULTS OF OPERATIONS
($ in thousands)
Three months Ended March 31, 2002 vs. Three Months Ended March 31, 2001

Consolidated:

Sales for the three-month period ended March 31, 2002 were $66,611 or 25% higher than the $53,395 in the comparable period of 2001. The increase in sales was due to several factors, including (i) a 719% increase in sales from the Madden Mens Wholesale Division ("Madden Mens Wholesale"), (ii) a 40% increase in sales from the Diva Acquisition Corp. Wholesale Division ("Diva Wholesale") (iii) a 24% increase in sales from Steven Madden Retail Division, (iv) a 23% increase in sales from the Stevies Wholesale Division ("Stevies Wholesale"), (v) a 19% increase in sales from the l.e.i. Wholesale Division ("l.e.i. Wholesale"), and (vi) an increase in public awareness with respect to the Company's brands.

Consolidated gross profit as a percentage of sales decreased from 41% in 2001 to 40% in 2002. The decrease was primarily attributable to two factors. At both wholesale and retail, a "broad and shallow" assortment strategy was adopted, wherein open to buy dollars were reserved for in-season performing product. Higher cost of goods as well as increased airfreight expenses were associated with reacting to this strategy as the Company elected to produce more goods in USA and Europe. This resulted in the Company accepting lower first quarter gross margins in exchange for lesser inventory exposure. Also, impacting the Company's first quarter gross margins was the level of promotional activities in the first quarter of 2002.

Selling, general and administrative (SG&A) expenses increased to $20,932 in 2002 from $17,415 in 2001. The increase in SG&A expenses was due primarily to a 30% increase in payroll, officers' bonuses and payroll-related expenses from $6,485 in 2001 to $8,447 in 2002. Also, selling, designing and licensing costs increased by 44% from $2,612 in 2001 to $3,770 in 2002. 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 expanded corporate office facilities resulted in an increase in occupancy, telephone, utilities, computer supplies and depreciation expenses by 15% from $3,486 in 2001 to $3,999 in 2002.

Income from operations for 2002 was $6,853, which represents an increase of $1,053 or 18% over the income from operations of $5,800 in 2001. Net income increased to $4,093 in 2002 from $3,650 in 2001.

Wholesale Divisions:
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Sales from the Steve Madden Women's Wholesale Division ("Madden Wholesale") accounted for $22,881 or 34%, and $23,076 or 43%, of total sales in 2002 and 2001, respectively. Gross profit as a percentage of sales decreased from 36% in 2001 to 32% in 2002. The decrease was primarily attributable to two factors. At both wholesale and retail, a "broad and shallow" assortment strategy was adopted, wherein open to buy dollars were reserved for in-season performing product. Higher cost of goods as well as increased airfreight expenses were associated with reacting to this strategy as the Company elected to produce more goods in USA and Europe. This resulted in the Company accepting lower first quarter gross margins in exchange for lesser inventory exposure. Also, impacting the Company's wholesale first quarter gross margins was the level of promotional activities in the first quarter of 2002. Operating expenses decreased to $6,003 in 2002 from $6,307 in 2001 due to decreases in advertising and marketing expenses. Madden Wholesale income from operations decreased to $1,654 in 2002 compared to income from operations of $2,323 in 2001.

Sales from l.e.i. Wholesale accounted for $11,575 or 17%, and $9,745 or 18%, of total sales in 2002 and 2001, respectively. The increase in sales was driven by the sales of key styles including closed toe fashion casuals and fresh spring dress sandals. Gross profit as a percentage of sales remained the same in 2001 and 2002. Operating expenses increased to $2,778 in 2002 from $1,873 in 2001 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 $1,296 in 2002 compared to income from operations of $1,536 in 2001.

Sales from Madden Mens Wholesale accounted for $7,449 or 11%, and $910 or 2%, of total sales in 2002 and 2001, respectively. The increase in sales was driven by the sales of key styles including euro casual and sport-active looks. Gross profit as a percentage of sales increased from 35% in 2001 to 37% in 2002 due to changes in product mix and balanced sourcing. Operating expenses increased to $1,401 in 2002 from $359 in 2001 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 Madden Mens Wholesale was $1,345 in 2002 compared to a loss from operations of $40 in 2001.

Sales from Diva Wholesale accounted for $2,485 or 4%, and $1,779 or 3%, of total sales in 2002 and 2001, respectively. The increase in sales was driven by the sales of key styles including pointy toe dress shoes as well as sport active shoes. Gross profit as a percentage of sales increased from 30% in 2001 to 34% in 2002 due to changes in product mix and balanced sourcing. Operating expenses increased to $535 in 2002 from $387 in 2001 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 $304 in 2002 compared to income from operations of $149 in 2001.

Sales from Stevies Wholesale, accounted for $3,445 or 5%, and $2,793 or 5%, of total sales in 2002 and 2001, respectively. This increase in sales was primarily due to the growth in accounts such as Kids "R" Us and Nordstrom. Gross profit as a percentage of sales increased from 36% in 2001 to 38% in 2002 due to changes in product mix and balanced sourcing. Operating expenses increased to $745 in 2002 from $565 in 2001 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 $575 in 2002 compared to income from operations of $557 in 2001.

Retail Division:
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Sales from the Retail Division accounted for $18,776 or 28% and $15,092 or 28% of total sales in 2002 and 2001, respectively. This increase in sales was due to the increase in the number of Steve Madden retail stores as well as an increase in comp store sales. During year 2001, the Company closed two of its least productive stores. As of March 31, 2002, there were 73 retail stores compared to 65 stores as of March 31, 2001. Same store sales for the quarter ended March 31, 2002 increased 14% over the same period 2001. This increase was achieved through a timely early transition to spring products and delivering fresh products to its stores early and replenishing in season. Gross profit as a percentage of sales decreased from 56% in 2001 to 55% in 2002 due to greater promotional activity at retail this quarter. Operating expenses for the Retail Division increased to $8,942 or 48% of sales in 2002 from $7,572 or 50% of sales in 2001. This increase in dollars was due to increases in payroll and payroll-related expenses and occupancy expenses as a result of opening additional stores since March 31, 2001. Income from operations for the Retail Division was $1,293 in 2002 compared to income from operations of $819 in 2001.

Adesso-Madden Division:
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Adesso-Madden, Inc. generated commission revenues of $914 for the three-month period ended March 31, 2002, which represents a 13% increase over commission revenues of $808 during the same period in 2001. 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 increased to $528 in 2002 from $352 in 2001 due to increases in payroll and payroll-related expenses. Income from operations for Adesso-Madden was $386 in 2002 compared to income from operations of $456 in 2001.

LICENSE AGREEMENTS

Revenues from licensing increased to $330 in the first quarter of 2002 from $326 in 2001. As of March 31, 2002, the Company had six license partners covering six product categories for its Steve Madden brand. Also, as of March 31, 2002, 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 $83,398 at March 31, 2002 compared to $62,917 in working capital at March 31, 2001, representing an increase of $20,481, 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 three month period ended March 31, 2002, cash used for operating activities was $11,888. Uses of cash arose principally from an increase in factored accounts receivable of $13,560 and a decrease in accounts payables and accrued expenses of $5,702. Cash was provided principally by net income of $4,093 and a decrease in prepaid expenses and other assets of $2,213.

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 March 31:

2002	$ 7,172,000
2003	6,835,000
2004	6,752,000
2005	6,346,000
2006	6,329,000
Thereafter	17,292,000
	$ 50,726,000

The Company has employment agreements with four key executives and its Creative and Design Chief as of March 31, 2002 providing for aggregate annual salaries of approximately $1,725 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 products are 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 three month period ended March 31, 2002, the Company used cash of $711 primarily for leasehold improvements to its corporate office space and for a new point of sale computer system for the retail stores.

FINANCING ACTIVITIES

During the three month period ended March 31, 2002, the Company received $1,835 from the sale of its common stock in connection with the exercise of stock options.

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. On April 4, 2002, Mr. Madden was sentenced in the United States District Court for the Southern district of New York to forty-one (41) months imprisonment in connection with two of the federal charges to which he pled guilty. On May 3, 2002, Mr. Madden was sentenced in the United States District Court for the Eastern District of New York to forty-one (41) months imprisonment in connection with the remaining two charges to which he pled guilty. The sentences will run concurrently. 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 three month period ended March 31, 2002, approximately 85% 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 eight to ten (8-10) 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.

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 April 30, 2002, the Company had outstanding options to purchase an aggregate of approximately 2,032,000 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.

Part II

ITEM 1. 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. On April 4, 2002, Mr. Madden was sentenced in the United States District Court for the Southern District of New York to forty-one (41) months imprisonment in connection with two of the federal charges to which he pled guilty. On May 3, 2002, Mr. Madden was sentenced in the United States District Court for the Eastern District of New York to forty-one (41) months imprisonment in connection with the remaining two charges to which he pled guilty. The sentences will run concurrently. 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:
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Between June and August 2000, eight putative securities fraud class action lawsuits were 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 or about February 26, 2001, Plaintiffs filed 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, notice 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:
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On or about September 26, 2000, a putative shareholder 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. On March 22, 2002, the District Judge entered an order adopting the Magistrate Judge's report and recommendation in full. Since that time, an agreement in principle has been reached to resolve all claims in this action, subject to execution of definitive documentation, such notice to the Company's shareholders (if any) as may be required by the District Court, and approval by the District Court. 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. Since that time, an agreement in principle has been reached to resolve all claims in this action, subject to execution of definitive documentation, such notice to the Company's shareholders (if any) as may be required by the District Court, and approval by the District Court. 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:
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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:
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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. On April 4, 2002, the Company filed a motion for partial summary judgement, which is also 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. On April 4, 2002, the plaintiff cross-moved for summary judgement. The Company believes that it has substantial defenses to the claims asserted in the lawsuit.

On or about January 22, 2002, an action was commenced against the Company in the United States District Court for the District of Oregon, captioned Adidas America, Inc. and Adidas Salomon AG v. Steven Madden, Ltd. and Steve Madden Retail, Inc. The complaint seeks injunctive and unspecified monetary damages for trademark infringement, trademark dilution, unfair competition and deceptive trade practices. The Company believes that it has substantial defenses to the claims asserted in the lawsuit.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

STEVEN MADDEN, LTD.

/s/ ARVIND DHARIA

Arvind Dharia
Chief Financial Officer

DATE: May 13, 2002