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 September 30, 2012

or

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

For the transition period from ____________________ to _____________________

Commission File Number 0-23702

STEVEN MADDEN, LTD.

(Exact name of registrant as specified in its charter)

Delaware	13-3588231
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
52-16 Barnett Avenue, Long Island City, New York	11104
(Address of principal executive offices)	(Zip Code)

(718) 446-1800

(Registrant’s telephone number, including area code)

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

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (do not check if smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of November 5, 2012, the latest practicable date, there were 45,909,160 shares of the registrant’s common stock, $.0001 par value, outstanding.

STEVEN MADDEN, LTD.
FORM 10-Q
QUARTERLY REPORT
September 30, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements
STEVEN MADDEN, LTD. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
(in thousands)

	September 30, 2012 (unaudited)	December 31, 2011	September 30, 2011 (unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	**$ 64,927**	$ 102,830	$ 35,141
Accounts receivable, net of allowances of $6,149, $5,894 and $7,114	**88,150**	91,407	113,461
Due from factor, net of allowances of $14,319, $12,325 and $12,496	**156,922**	62,017	105,694
Inventories	**84,044**	59,644	77,042
Marketable securities – available for sale	**9,964**	5,659	4,159
Prepaid expenses and other current assets	**21,125**	15,289	14,465
Deferred taxes	**9,746**	9,711	9,415
Total current assets	**434,878**	346,557	359,377
Notes receivable	**3,585**	7,401	7,318
Note receivable – related party	**3,561**	4,090	4,028
Property and equipment, net	**43,497**	31,587	30,400
Deferred taxes	—	2,428	4,665
Deposits and other	**2,264**	1,257	1,970
Marketable securities – available for sale	**79,464**	72,004	72,500
Goodwill – net	**91,559**	75,595	74,976
Intangibles – net	**136,500**	98,867	95,780
Total Assets	**$ 795,308**	$ 639,786	$ 651,014
LIABILITIES			
Current liabilities:			
Accounts payable	**$ 96,725**	$ 69,747	$ 86,894
Accrued expenses	**38,411**	34,327	34,864
Income taxes payable	**—**	—	22,877
Contingent payment liability – current portion	**19,255**	14,133	3,787
Accrued incentive compensation	**6,290**	16,881	13,402
Total current liabilities	**160,681**	135,088	161,824
Contingent payment liability	**38,496**	23,788	36,236
Deferred rent	**7,207**	6,004	5,799
Deferred taxes	**2,447**	—	—
Other liabilities	**123**	148	154
Total Liabilities	**208,954**	165,028	204,013
Commitments, contingencies and other			
STOCKHOLDERS' EQUITY			
Preferred stock – $.0001 par value, 5,000 shares authorized; none issued; Series A Junior Participating preferred stock – $.0001 par value, 60 shares authorized; none issued	—	—	—
Common stock – $.0001 par value, 60,000 shares authorized, 54,307, 51,408 and 51,271 shares issued, 45,904, 43,005 and 42,868 shares outstanding	**5**	5	5
Additional paid-in capital	**210,274**	186,325	182,292
Retained earnings	**507,074**	420,411	396,639
Other comprehensive income	**1,697**	678	740
Treasury stock – 8,403 shares at cost	**(132,543)**	(132,543)	(132,543)
Total Steven Madden, Ltd. stockholders' equity	**586,507**	474,876	447,133
Noncontrolling interests	**(153)**	(118)	(132)
Total stockholders' equity	**586,354**	474,758	447,001
Total Liabilities and Stockholders' Equity	**$ 795,308**	$ 639,786	$ 651,014

See accompanying notes to condensed consolidated financial statements unaudited.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Net sales	**$ 356,883**	$ 313,887	**$ 911,545**	$ 688,794
Cost of sales	**225,668**	204,434	**579,983**	426,114
Gross profit	**131,215**	109,453	**331,562**	262,680
Commission and licensing fee income – net	**3,875**	5,649	**12,600**	14,648
Operating expenses	**(73,573)**	(64,594)	**(205,482)**	(162,177)
Impairment charges and provision for litigation	**(5,144)**	—	**(9,454)**	—
Income from operations	**56,373**	50,508	**129,226**	115,151
Interest and other income – net	**2,138**	1,732	**4,271**	4,905
Income before provision for income taxes	**58,511**	52,240	**133,497**	120,056
Provision for income taxes	**20,698**	20,372	**46,869**	46,641
Net income	**37,813**	31,868	**86,628**	73,415
Net loss attributable to noncontrolling interests	**(83)**	(43)	**(35)**	(132)
Net income attributable to Steven Madden, Ltd.	**$ 37,896**	$ 31,911	**$ 86,663**	$ 73,547
Basic net income per share	**$ 0.88**	$ 0.75	**$ 2.02**	$ 1.74
Diluted net income per share	**$ 0.86**	$ 0.74	**$ 1.97**	$ 1.70
Basic weighted average common shares outstanding	**43,131**	42,430	**42,936**	42,180
Effect of dilutive securities – options/restricted stock	**1,106**	977	**1,085**	973
Diluted weighted average common shares outstanding	**44,237**	43,407	**44,021**	43,153

See accompanying notes to condensed consolidated financial statements - unaudited.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income
(unaudited)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Net income	**$ 37,813**	$ 31,868	**$ 86,628**	$ 73,415
Other comprehensive income (loss) (net of tax):				
Foreign currency translation adjustment	**160**	—	**67**	—
Unrealized gain (loss) on marketable securities	**506**	(644)	**952**	(232)
Total other comprehensive income (loss) (net of tax)	**666**	(644)	**1,019**	(232)
Comprehensive income	**38,479**	31,224	**87,647**	73,183
Comprehensive (loss) income attributable to noncontrolling interests	**(83)**	**(43)**	**(35)**	**(132)**
Comprehensive income attributable to Steven Madden, Ltd.	**$ 38,562**	$ 31,267	**$ 87,682**	$ 73,315

See accompanying notes to condensed consolidated financial statements - unaudited.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

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

	Nine Months Ended September 30,	
	2012	**2011**
Cash flows from operating activities:		
Net income	**$ 86,628**	$ 73,415
Adjustments to reconcile net income to net cash provided by operating activities:		
Tax benefit from the exercise of options	**(4,298)**	(4,178)
Depreciation and amortization	**9,104**	7,849
Loss on disposal of fixed assets	**175**	609
Impairment charges	**6,955**	—
Stock-based compensation	**12,660**	8,337
Provision for doubtful accounts and chargebacks	**2,249**	4,352
Accrued interest on note receivable – related party	**529**	(179)
Deferred rent expense	**1,264**	(556)
Realized gain on sale of marketable securities	**(2,029)**	(1,254)
Changes in:		
Accounts receivable	**5,496**	(40,030)
Due from factor	**(96,899)**	(53,184)
Inventories	**(22,180)**	(25,301)
Prepaid expenses, deposits and other assets	**(5,792)**	(2,329)
Accounts payable and other accrued expenses	**20,896**	39,834
Net cash provided by operating activities	**14,758**	7,385
Cash flows from investing activities:		
Purchases of property and equipment	**(15,617)**	(12,246)
Purchases of marketable securities	**(48,955)**	(13,983)
Advance to seller of SM Canada	**(3,085)**	—
Payment of contingent liability	**(7,076)**	—
Sale of marketable securities	**40,150**	64,885
Acquisitions, net of cash acquired	**(29,367)**	(85,234)
Net cash used in investing activities	**(63,950)**	(46,578)
Cash flows from financing activities:		
Proceeds from exercise of stock options	**6,991**	4,005
Tax benefit from the exercise of options	**4,298**	4,178
Net cash provided by financing activities	**11,289**	8,183
Net decrease in cash and cash equivalents	**(37,903)**	(31,010)
Cash and cash equivalents – beginning of period	**102,830**	66,151
Cash and cash equivalents – end of period	**$ 64,927**	$ 35,141

See accompanying notes to condensed consolidated financial statements - unaudited.

Notes to Condensed Consolidated Financial Statements – Unaudited
September 30, 2012
($ in thousands except share and per share data)

Note A – Basis of Reporting

The accompanying unaudited condensed consolidated financial statements of Steven Madden, Ltd. and subsidiaries (the "Company") have been prepared in accordance with the generally accepted accounting principles in the United States of America ("GAAP") for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the financial position of the Company and the results of its operations and cash flows for the periods presented. The results of its operations for the three- and nine-month periods ended September 30, 2012 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, 2011 included in the Annual Report of Steven Madden, Ltd. on Form 10-K filed with the SEC on February 29, 2012.

Note B – Recently Adopted Accounting Standards

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-08, "Intangibles – Goodwill and Other" ("ASU 2011-08"). Under ASU 2011-08, when testing goodwill for impairment, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount. If an entity believes, as a result of its qualitative assessment that the fair value of a reporting unit is less than its carrying amount, performing the current two-step impairment test is not required. The guidance also includes a number of events and circumstances that an entity should consider in conducting the qualitative assessment. The adoption of this guidance, which became effective for the Company on January 1, 2012, did not have a material impact on our financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05 "Comprehensive Income (Topic 220): Presentation of Comprehensive Income" ("ASU No. 2011-05"). Under ASU No. 2011-05, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Regardless of which option is selected, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU No. 2011-05 which became effective for the Company on January 1, 2012, only affected the presentation of financial statements and thus had no impact on the financial results or financial position. In October 2011, the FASB announced plans to defer the presentation of items that are reclassified from other comprehensive income to net income alongside their respective components of net income and other comprehensive income.

Note C – Use of Estimates

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

Significant areas involving management estimates include allowances for bad debts, returns and customer chargebacks and contingent payment liability. The Company provides reserves on trade accounts receivables and due from factors for future customer chargebacks and markdown allowances, discounts, returns and other miscellaneous compliance related deductions that relate to the current period sales. The Company evaluates anticipated chargebacks by reviewing several performance indicators of its major customers. These performance indicators, which include retailers' inventory levels, sell-through rates and gross margin levels, are analyzed by management to estimate the amount of the anticipated customer allowance.

($ in thousands except share and per share data)

Note D – Due From Factor

The Company has a collection agency agreement with Rosenthal & Rosenthal, Inc. ("Rosenthal") that became effective on September 15, 2009. The agreement can be terminated by the Company or Rosenthal at any time upon 60 days prior written notice. Under the agreement the Company can request advances from Rosenthal of up to 85% of aggregate receivables submitted to Rosenthal. The agreement provides the Company with a $30 million credit facility with a $15 million sub-limit for letters of credit at an interest rate based, at the Company's election, upon either the prime rate or LIBOR. The Company also pays a fee based on a percentage of the gross invoice amount submitted to Rosenthal. Originally the fee was 0.275% of the gross invoice amount but, on July 10, 2012 the agreement was amended to reduce the fee to 0.25%. Rosenthal assumes the credit risk on a substantial portion of the receivables that the Company submits to it and, to the extent of any loans made to the Company, Rosenthal maintains a lien on all of the Company's receivables to secure the Company's obligations.

Note E – Notes Receivable

As of September 30, 2012 and December 31, 2011, Notes Receivable were comprised of the following:

	September 30, 2012	December 31, 2011
Due from Bakers Footwear Group, Inc.	$ —	$ 4,092
Due from Betsey Johnson LLC	500	3,309
Due from seller of SM Canada (see Note Q)	3,085	—
Total	$ 3,585	$ 7,401

On August 26, 2010, the Company entered into a Debenture and Stock Purchase Agreement with Bakers Footwear Group, Inc. ("Bakers") pursuant to which the Company paid $5,000 to acquire a subordinated debenture in the principal amount of $5,000 and 1,844,860 unregistered shares of Bakers common stock which traded on the Over-the-Counter Bulletin Board. The Company allocated $996 of the purchase price to the common stock and $4,004 to the subordinated debenture based upon their relative fair values. Interest accrues on the debenture at the rate of 11% per annum and is payable quarterly in cash. The principal amount of the debenture was payable by Bakers in four equal installments of $1,250 due on August 31, 2017, 2018, 2019 and 2020. The difference between the $4,004 purchase price of the debenture and the $5,000 principal amount of the debenture is considered original issue discount and is being amortized over the life of the debenture. As of September 30, 2012 and 2011, the total amount of the discount amortized was $145 and $70, bringing the value of the note to $4,148 and $4,074, respectively. On October 3, 2012, Bakers filed for Chapter 11 protection in the United States Bankruptcy Court. As a consequence of the bankruptcy, the debenture due from Bakers (as well as the common stock) is considered impaired and, therefore, was deemed to have no value. (See also Note H.) Accordingly, a charge of $4,148 (as well as a charge of $996 for the impairment of Bakers common stock) was included in the impairment charges and provision for litigation for the Condensed Consolidated Statements of Income in the quarter ended September 30, 2012.

In April 2012, Betsey Johnson LLC filed for Chapter 11 protection in the United States Bankruptcy Court. Shortly thereafter, Betsey Johnson LLC announced that it would commence an orderly liquidation of all of its assets. As a consequence of the bankruptcy, the note receivable due from Betsey Johnson LLC is considered impaired, and accordingly, the value of the note was reduced by $1,810 to $500 in the second quarter of 2012. The $1,810 charge was included in the impairment of charges and provision for litigation in the Condensed Consolidated Statements of Income in the second quarter of this year. The note was valued using the estimated future recoveries from the bankruptcy proceeding.

Note F – Note Receivable – Related Party

On June 25, 2007, the Company made a loan to Steve Madden, its Creative and Design Chief and a principal stockholder of the Company, in the amount of $3,000 in order for Mr. Madden to satisfy a personal tax obligation resulting from the exercise of options that were due to expire and retain the underlying Company common stock, which he pledged to the Company as collateral to secure the loan. Mr. Madden executed a secured promissory note in favor of the Company bearing interest at an annual rate of 8%, which was due on the earlier of the date Mr. Madden ceases to be employed by the Company or December 31, 2007. The note was amended and restated as of December 19, 2007 to extend the maturity date to March 31, 2009, and amended and restated

Note F – Note Receivable – Related Party (continued)

again as of April 1, 2009 to change the interest rate to 6% and extend the maturity date to June 30, 2015 at which time all principal and accrued interest would become due. On January 3, 2012, in connection with an amendment of Mr. Madden's employment contract, the note was again amended and restated (the "Third Amended and Restated Note") to extend the maturity date to December 31, 2023 and eliminate accrual of interest after December 31, 2011. In addition, the Third Amended and Restated Note provides that, commencing on December 31, 2014 and annually on each December 31 thereafter through the maturity date, one-tenth of the principal amount thereof, together with accrued interest, will be cancelled by the Company provided that Mr. Madden continues to be employed by the Company on each such December 31. As of December 31, 2011, $1,090 of interest has accrued on the principal amount of the loan related to the period prior to the elimination of the accrual of interest and has been reflected on the Company's Condensed Consolidated Financial Statements. Due to the three-for-two stock split effected on May 3, 2010, the number of shares securing the loan increased from 510,000 shares to 765,000 shares. Based upon the increase in the market value of the Company's common stock since the inception of the loan, on July 12, 2010, the Company released from its security interest 555,000 shares of the Company's common stock, retaining 210,000 shares with a total market value on that date of $6,798, as collateral for the loan. Subsequently, pursuant to the three-for-two stock split effected on May 31, 2011, the number of shares securing the repayment of the loan has increased from 210,000 shares to 315,000 shares. On September 30, 2012, the total market value of these shares was $13,772. Pursuant to the elimination of further interest accumulation under the Third Amended and Restated Note, the outstanding principal and the accrued interest as of December 31, 2011 has been discounted to reflect imputed interest, which will be amortized over the remaining life of the loan.

Note G – Marketable Securities

Marketable securities consist primarily of corporate bonds with maturities greater than three months and up to ten years at the time of purchase as well as marketable equity securities. These securities, which are classified as available-for-sale, are carried at fair value, with unrealized gains and losses, net of any tax effect, reported in stockholders' equity as accumulated other comprehensive income (loss). These securities are classified as current and non-current marketable securities based upon their maturities. Amortization of premiums and discounts is included in interest income. For the three- and nine-month periods ended September 30, 2012, the amortization of bond premiums totals $182 and $710, respectively, compared to $234 and $898, respectively, for the comparable periods in 2011. The values of these securities may fluctuate as a result of changes in equity values, market interest rates and credit risk.

Note H – Fair Value Measurement

The accounting guidance under "Fair Value Measurements and Disclosures" ("ASC 820-10") requires the Company to make disclosures about the fair value of certain of its assets and liabilities. ASC 820-10 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. ASC 820-10 utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. A brief description of those three levels is as follows:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- Level 3: Significant unobservable inputs.

The Company's financial assets and liabilities subject to fair value measurements as of September 30, 2012 and December 31, 2011 are as follows:

($ in thousands except share and per share data)

Note H – Fair Value Measurement (continued)

		September 30, 2012		
		Fair Value Measurements Using Fair Value Hierarchy		
	Fair value	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash equivalents	$ 5,492	$ 5,492	$ —	$ —
Current marketable securities – available for sale	9,964	9,964	—	—
Investment in Bakers	—	—	—	—
Note receivable – related party	3,561	—	—	3,561
Note receivable – Bakers	—	—	—	—
Note receivable – Betsey Johnson	500	—	—	500
Note receivable – Seller of SM Canada	3,085	—	—	3,085
Long-term marketable securities – available for sale	79,464	79,464	—	—
Total assets	$ 102,066	$ 94,920	$ —	$ 7,146
Liabilities:				
Contingent consideration	$ 57,751	—	—	$ 57,751
Total liabilities	$ 57,751	—	—	$ 57,751

		December 31, 2011		
		Fair Value Measurements Using Fair Value Hierarchy		
	Fair value	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash equivalents	$ 57,652	$ 57,652	$ —	$ —
Current marketable securities – available for sale	5,659	5,659	—	—
Investment in Bakers	996	—	996	—
Note receivable – related party	4,090	—	—	4,090
Note receivable – Bakers	4,092	—	—	4,092
Note receivable – Betsey Johnson	3,309	—	—	3,309
Long-term marketable securities – available for sale	72,004	72,004	—	—
Total assets	$ 147,802	$ 135,315	$ 996	$ 11,491
Liabilities:				
Contingent consideration	$ 37,921	—	—	$ 37,921
Total liabilities	$ 37,921	—	—	$ 37,921

Note H – Fair Value Measurement (continued)

Pursuant to the Debenture and Stock Purchase Agreement with Bakers (see Note E), the Company acquired 1,844,860 unregistered shares of Bakers common stock, which trades on the OTC Bulletin Board. These shares, which are thinly traded, were valued using the quoted price of similar registered shares of Bakers common stock adjusted for the effect of the transfer restriction, considering factors such as the nature and duration of the transfer restriction, the volatility of the stock and the risk free interest rate. The shares are included in deposits and other assets on the Company's Condensed Consolidated Balance Sheets. For the note receivable due from Bakers (see Note E), which was purchased at a substantial discount, the carrying value was determined to be the fair value. On October 3, 2012, Bakers filed for Chapter 11 protection in the United States Bankruptcy Court. As a consequence of the bankruptcy, Bakers common stock and the debenture, as well as account receivable due from Bakers, which had been valued at $996, $4,148 and $852, respectively, are considered impaired, and therefore were deemed to have no value. Accordingly, charges of $996 and $4,148 were included in the impairment charges and provision for litigation and a charge of $852 was included in commission and licensing fee income in the Condensed Consolidated Statements of Income for the third quarter of this year.

For the note receivable due from related party and due from the sellers of SM Canada (see Note Q), the carrying value was determined to be the fair value, based upon their imputed or actual interest rates, which approximate current market interest rates. In April 2012, Betsey Johnson LLC announced that it would commence an orderly liquidation under the protection of the United States Bankruptcy Court. The note receivable due from Betsey Johnson was valued using the estimated future recoveries from the bankruptcy proceeding.

The Company has recorded a liability for potential contingent consideration in connection with the February 21, 2012 acquisition of SM Canada (see Note Q). Pursuant to the terms of an earn-out agreement between the Company and the seller of SM Canada, earn-out payments will be due annually to the seller of SM Canada based on the financial performance of SM Canada for each of the twelve-month periods ending on March 31, 2013 through 2017, inclusive. The fair value of the contingent payments was estimated using the present value of management's projections of the financial results of SM Canada during the earn-out period.

The Company has recorded a liability for potential contingent consideration in connection with the May 25, 2011 acquisition of Cejon Inc., Cejon Accessories, Inc. and New East Designs, LLC (collectively "Cejon") (see Note Q). Pursuant to the terms of an earn-out agreement between the Company and the sellers of Cejon, earn-out payments will be made annually to the sellers of Cejon, based on the financial performance of Cejon for each of the twelve-month periods ending on June 30, 2012 through 2016, inclusive. The fair value of the contingent payments was estimated using the present value of management's projections of the financial results of Cejon during the earn-out period. The earn-out payment for the period ended June 30, 2012 was paid in the third quarter of this year.

The Company has recorded a liability for potential contingent consideration in connection with the May 20, 2011 acquisition of The Topline Corporation ("Topline") (see Note Q). Pursuant to the terms of the acquisition agreement, an earn-out payment will be made to the seller of Topline based on the financial performance of Topline for the twelve-month period ended June 30, 2012. The fair value of the contingent payment was estimated using the present value of management's projections of the financial results of Topline during the earn-out period.

The Company has recorded a liability for contingent consideration as a result of the February 10, 2010 acquisition of Big Buddha, Inc. The contingent consideration will be payable to the seller of Big Buddha based on the financial performance of Big Buddha for the twelve-month period ending on March 31, 2013. The fair value of the contingent payments was estimated using the present value of management's projections of the financial results of Big Buddha during the earn-out period.

Accounting guidance permits entities to choose to measure financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The accounting guidance also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that chose different measurement attributes for similar assets and liabilities. The Company has elected not to measure any eligible items at fair value.

The carrying value of certain financial instruments such as accounts receivable, due from factor and accounts payable approximates their fair values due to the short-term nature of their underlying terms. The fair values of investment in marketable securities available for sale are determined by reference to market data and other valuation techniques, as appropriate. Fair value of the notes receivable held by the Company approximates their carrying value based upon their imputed or actual interest rate, which approximates current market interest rates.

Note I – Inventories

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

Note J – Revenue Recognition

The Company recognizes revenue on wholesale sales when products are shipped pursuant to its standard terms, which are freight on board ("FOB") Company warehouse, or when products are delivered to the consolidators, or any other destination, as per the terms of the customers' purchase order, persuasive evidence of an arrangement exists, the price is fixed or determinable and collection is reasonably assured. Sales reductions on wholesale sales for anticipated discounts, allowances and other deductions are recognized during the period when sales are recorded. Customers retain the right to replacement of the product for poor quality or improper or short shipments, which have historically been immaterial. Retail sales are recognized when the payment is received from customers and are recorded net of estimated returns. The Company also generates commission income acting as a buying agent by arranging to manufacture private label shoes to the specifications of its clients. The Company's commission revenue includes fees charged for its design, product and development services provided to certain suppliers in connection with the Company's private label business. Commission revenue and product and development fees are recognized as earned when title to the product transfers from the manufacturer to the customer and collections are reasonably assured and are reported on a net basis after deducting related operating expenses.

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

Note K – Taxes Collected From Customers

The Company accounts for certain taxes collected from its customers in accordance with the accounting guidance which permits companies to adopt a policy of presenting taxes in the income statement on either a gross basis (included in revenues and costs) or a net basis (excluded from revenues). Taxes within the scope of this accounting guidance would include taxes that are imposed on a revenue transaction between a seller and a customer, for example, sales taxes, use taxes, value-added taxes and some types of excise taxes. The Company has consistently recorded all taxes on a net basis.

Note L – Sales Deductions

The Company supports retailers' initiatives to maximize sales of the Company's products on the retail floor by subsidizing the co-op advertising programs of such retailers, providing them with inventory markdown allowances and participating in various other marketing initiatives of its major customers. In addition, the Company accepts returns for damaged products for which the Company's costs are normally charged back to the responsible third-party factory. Such expenses are reflected in the financial statements as deductions to net sales.

($ in thousands except share and per share data)

Note M – Cost of Sales

All costs incurred to bring finished products to the Company's distribution center or to the customers' freight forwarder and, in the Retail segment, the costs to bring products to the Company's stores, are included in the cost of sales line on the Condensed Consolidated Statements of Income. These include the cost of finished products, purchase commissions, letter of credit fees, brokerage fees, sample expenses, custom duty, inbound freight, royalty payments on licensed products, labels and product packaging. All warehouse and distribution costs related to the Wholesale segments and freight to customers, if any, are included in the operating expenses line item of the Company's Condensed Consolidated Statements of Income. The Company's gross margins may not be comparable to those of other companies in the industry because some companies may include warehouse and distribution costs, as well as other costs excluded from cost of sales by the Company, as a component of cost of sales, while other companies report on the same basis as the Company and include them in operating expenses.

Note N – Income Taxes

During the second quarter of 2012, the Company determined to invest indefinitely a portion of its 2012 earnings from its foreign operations in the acquisition and expansion of SM Canada. As a result of this investment, the Company's effective income tax rate decreased to 35.4% and 35.1% for the three and nine months ended September 30, 2012, respectively.

Note O – Net Income Per Share of Common Stock

Basic net income per share is based on the weighted average number of shares of common stock outstanding during the period, which does not include unvested restricted stock subject to forfeiture. Diluted net income per share reflects: a) the potential dilution assuming shares of common stock were issued upon the exercise of outstanding in-the-money options and the proceeds thereof were used to purchase shares of the Company's common stock at the average market price during the period, and b) the vesting of granted nonvested restricted stock awards for which the assumed proceeds upon vesting are deemed to be the amount of compensation cost not yet recognized attributable to future services using the treasury stock method, to the extent dilutive. For both the three- and nine-month periods ended September 30, 2012, options to purchase approximately 99,000 shares of common stock have been excluded in the calculation of diluted income per share as compared with 19,000 and 169,000 shares that were excluded for the three- and nine-month periods ended September 30, 2011, respectively, as the result would have been antidilutive. For the three- and nine-month periods ended September 30, 2012 and 2011, all unvested restricted stock awards were dilutive.

Note P – Stock-Based Compensation

In March 2006, the Board of Directors approved the Steven Madden, Ltd. 2006 Stock Incentive Plan (the "Plan") under which nonqualified stock options, stock appreciation rights, performance shares, restricted stock, other stock-based awards and performance-based cash awards may be granted to employees, consultants and non-employee directors. The stockholders approved the Plan on May 26, 2006. On May 25, 2007, the stockholders approved an amendment to the Plan to increase the maximum number of shares that may be issued under the Plan from 2,700,000 to 3,487,500. On May 22, 2009, the stockholders approved a second amendment to the Plan that increased the maximum number of shares that may be issued under the Plan to 9,144,000. On May 25, 2012, the stockholders approved a third amendment to the Plan that increased the maximum number of shares that may be issued under the Plan to 15,644,000. The following table summarizes the number of shares of common stock authorized for use under the Plan, the number of stock-based awards granted (net of expired or cancelled awards) under the Plan and the number of shares of common stock available for the grant of stock-based awards under the Plan:

Common stock authorized	15,644,000
Stock-based awards, including restricted stock and stock options granted, net of expired or cancelled	(11,089,000)
Common stock available for grant of stock-based awards as of September 30, 2012	4,555,000

($ in thousands except share and per share data)

Note P – Stock-Based Compensation (continued)

Total equity-based compensation for the three and nine months ended September 30 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Restricted stock	**$ 3,319**	$ 1,093	**$ 8,177**	$ 4,050
Stock options	**1,392**	1,679	**4,483**	4,287
Total	**$ 4,711**	$ 2,772	**$ 12,660**	$ 8,337

Equity-based compensation is included in operating expenses on the Company's Condensed Consolidated Statements of Income.

Stock Options

Cash proceeds and intrinsic values related to total stock options exercised during the three- and nine-month periods ended September 30, 2012 and 2011 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Proceeds from stock options exercised	**$ 2,040**	$ 520	**$ 6,991**	$ 4,005
Intrinsic value of stock options exercised	**$ 4,213**	$ 1,062	**$ 12,445**	$ 8,861

During the three and nine months ended September 30, 2012, options to purchase approximately 65,000 shares of common stock with a weighted average exercise price of $28.82 and options to purchase approximately 745,000 shares of common stock with a weighted average exercise price of $18.53 vested, respectively. During the three and nine months ended September 30, 2011, options to purchase approximately 86,000 shares of common stock with a weighted average exercise price of $24.61 and options to purchase approximately 697,000 shares of common stock with a weighted average exercise price of $15.23 vested, respectively. As of September 30, 2012, there were unvested options relating to 1,269,000 shares of common stock with a total of $7,845 of unrecognized compensation cost and an average vesting period of 2.1 years.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of options granted, which requires several assumptions. The expected term of the options represents the estimated period of time until exercise and is based on the historical experience of similar awards. Expected volatility is based on the historical volatility of the Company's common stock. The risk free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. With the exception of special dividends paid in November of 2005 and 2006, the Company historically has not paid regular cash dividends and thus the expected dividend rate is assumed to be zero. The following weighted average assumptions were used for stock options granted:

	2012	**2011**
Volatility	**41.1% to 47.4%**	47.3% to 48.7%
Risk free interest rate	**0.47% to 0.87%**	0.61% to 1.78%
Expected life in years	**3.1 to 4.6**	2.8 to 4.4
Dividend yield	**0.00%**	0.00%
Weighted average fair value	**$14.05**	$10.91

($ in thousands except share and per share data)

Note P – Stock-Based Compensation (continued)

Activity relating to stock options granted under the Company's plans and outside the plans during the nine months ended September 30, 2012 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2012	2,703,000	$ 17.79		
Granted	213,000	40.30		
Exercised	(423,000)	16.51		
Cancelled/Forfeited	(39,000)	17.67		
Outstanding at September 30, 2012	2,454,000	$ 19.96	4.2 years	$ 58,312
Exercisable at September 30, 2012	1,185,000	$ 16.94	3.8 years	$ 31,732

Restricted Stock

The following table summarizes restricted stock activity during the nine months ended September 30, 2012 and 2011:

	2012		2011	
	Number of Shares	Weighted Average Fair Value at Grant Date	Number of Shares	Weighted Average Fair Value at Grant Date
Non-vested at January 1	671,000	$ 25.44	563,000	$ 17.20
Granted	2,409,000	36.22	334,000	31.34
Vested	(172,000)	25.11	(179,000)	14.93
Forfeited	(2,000)	38.10	—	—
Non-vested at September 30	2,906,000	$ 34.39	718,000	$ 24.34

As of September 30, 2012, there was $92,431 of total unrecognized compensation cost related to restricted stock awards granted under the Plan. This cost is expected to be recognized over a weighted average of 10.1 years. The Company determines the fair value of its restricted stock awards based on the market price of its common stock on the date of grant.

On January 3, 2012, the Company and its Creative and Design Chief, Steven Madden, entered into an amendment of Mr. Madden's existing employment agreement, pursuant to which, on February 8, 2012, Mr. Madden was granted 975,371 restricted shares of the Company's common stock at the then market price of $41.01, which will vest in equal annual installments over a seven-year period commencing on December 31, 2017 and, thereafter, on each December 31 through December 31, 2023, subject to Mr. Madden's continued employment on each such vesting date. Pursuant to the contract, on June 30, 2012, Mr. Madden exercised his right to receive an additional restricted stock award, and on July 3, 2012 he was granted 1,262,228 restricted shares of the Company's common stock at the then market price of $31.69, which will vest in the same manner as the prior grant.

($ in thousands except share and per share data)

Note Q – Acquisitions

Steve Madden Canada

On February 21, 2012, the Company purchased all of the assets of Steve Madden Canada Inc., Steve Madden Retail Canada Inc., Pasa Agency Inc. and Gelati Imports Inc. (collectively, "SM Canada"), the Company's sole distributor in Canada since 1994, comprising SM Canada's footwear, handbags and accessories wholesale and retail businesses. The transaction was completed for consideration of approximately $29,367 plus potential earn-out payments of up to a maximum of $38,000 (Canadian dollars, which converts to approximately the same in U.S. dollars), in the aggregate, based on achievement of certain earnings targets for each of the twelve-month periods ending on March 31, 2013 through 2017, inclusive. The fair value of the contingent payments was estimated using the present value of management's projections of the financial results of SM Canada during the earn-out period. As of September 30, 2012, the Company estimates the fair value of the contingent consideration to be $19,975.

The transaction was accounted for using the acquisition method required by GAAP. Accordingly, the assets and liabilities of SM Canada were adjusted to their fair values, and the excess of the purchase price over the fair value of the assets acquired, including identified intangible assets, was recorded as goodwill. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions, which are subject to change. The purchase price has been preliminarily allocated as follows:

Accounts receivable	$	2,496
Inventory		2,220
Prepaid expenses and other assets		147
Fixed assets		1,005
Re-acquired right		35,200
Customer relationships		4,400
Non-compete agreement		455
Accounts payable		(2,645)
Accrued expenses		(802)
Total fair value excluding goodwill		42,476
Goodwill		4,185
Net assets acquired	$	46,661

Prior to the acquisition, the Company and SM Canada had a preexisting relationship under which SM Canada had the right to use the Steve Madden brand throughout Canada in connection with the sale and distribution of merchandise. The settlement of the preexisting relationship is considered a re-acquired right and was valued based on the present value of estimated future cash flows.

The purchase price and related allocation are preliminary and may be revised as a result of adjustments made to the purchase price as may be required as additional information regarding assets and liabilities is revealed. Contingent consideration classified as a liability will be remeasured at fair value at each reporting date, until the contingency is resolved, with changes recognized in earnings. The goodwill related to this transaction is expected to be deductible for tax purposes over 15 years.

The Company incurred approximately $951 in acquisition related costs applicable to the SM Canada transaction, $800 of which were incurred in 2012. These expenses are included in operating expenses in the Company's Condensed Consolidated Statements of Income.

In connection with the acquisition, the Company provided an interest free loan to the seller of SM Canada in the principal amount of $3,107 (Canadian dollars, $3,085 in US dollars). The note will be paid in five annual installments which are due on the dates the five annual earn-out payments are paid. The note was recorded net of the imputed interest, which will be amortized to income over the term of the note.

($ in thousands except share and per share data)

Note Q – Acquisitions (continued)

Cejon

On May 25, 2011, the Company acquired all of the outstanding shares of capital stock of closely held Cejon, Inc. and Cejon Accessories, Inc. from the sole stockholder of these companies, as well as all of the outstanding membership interests in New East Designs, LLC (together with Cejon Inc. and Cejon Accessories, "Cejon") from its members (together with the sole stockholder of Cejon, the "Cejon Sellers"). Founded in 1991, Cejon designs, markets and sells cold weather accessories, fashion scarves, wraps and other trend accessories primarily under the Cejon brand name, private labels and under the Steve Madden brand name. Cejon had been a licensee of the Company for cold weather and selected other fashion accessories since September 2006. Management expects the Cejon acquisition will further strengthen and expand the Company's accessories platform. The acquisition was completed for consideration of approximately $29,502 cash plus potential contingent payments pursuant to an earn-out agreement with the Cejon Sellers. The earn-out agreement specifies two tiers of potential payments to the Cejon Sellers based on the financial performance of Cejon for each of the twelve-month periods ending on June 30, 2012 through 2016, inclusive. The tier one earn-out is based on a graduated percentage of EBITDA up to a maximum EBITDA of $11,000 in each of the earn-out periods, provided that the total aggregate payments under this tier do not exceed $25,000. The tier two earn-out is based on a multiple of the amount that EBITDA exceeds certain levels in each of the earn-out periods, provided that the total aggregate payments under this tier do not exceed $33,000. The earn-out payment for the period ended June 30, 2012 was paid in the third quarter of this year.

The transaction was accounted for using the acquisition method required by GAAP. Accordingly, the assets and liabilities of Cejon were adjusted to their fair values, and the excess of the purchase price over the fair value of the assets acquired, including identified intangible assets, was recorded as goodwill. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. The purchase price has been allocated as follows:

Accounts receivable	$	3,631
Inventory		3,998
Prepaid expenses and other current assets		196
Fixed assets		190
Trade name		27,065
Customer relationships		3,225
Non-compete agreement		305
Other assets		24
Accounts payable		(1,318)
Accrued expenses		(2,242)
Total fair value excluding goodwill		35,074
Goodwill		17,759
Net assets acquired	$	52,833

Contingent consideration classified as a liability will be remeasured at fair value at each reporting date, until the contingency is resolved, with changes recognized in earnings. The goodwill related to this transaction is expected to be deductible for tax purposes over 15 years.

The Company incurred approximately $531 in acquisition related costs applicable to the Cejon transaction during the year ended December 31, 2011. These expenses were included in operating expenses in the Company's Consolidated Statements of Income for the year ended December 31, 2011.

($ in thousands except share and per share data)

Note Q – Acquisitions (continued)

Topline

On May 20, 2011, the Company acquired all of the outstanding shares of capital stock of the closely held company, Topline from its sole stockholder (the "Topline Seller"). Founded in 1980, Topline and its subsidiaries design, manufacture, market and sell private label and branded women's footwear primarily to department stores, specialty retailers and mass merchants. Topline has sourcing capabilities, sample making facilities and product development capabilities in China, including personnel and facilities engaged in direct sourcing. Management believes that Topline is an excellent strategic fit for the Company. The acquisition was completed for consideration of approximately $56,128 cash, plus potential contingent payments pursuant to an earn-out agreement with the Topline Seller. The earn-out agreement provides for potential payments to the Topline Seller based on the financial performance of Topline for the twelve-month period ended on June 30, 2012. The fair value of the contingent payments was estimated using the present value of management's projections of the financial results of Topline during the earn-out period (see Note H).

The transaction was accounted for using the acquisition method required by GAAP. Accordingly, the assets and liabilities of Topline were adjusted to their fair values, and the excess of the purchase price over the fair value of the assets acquired, including identified intangible assets, was recorded as goodwill. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. The purchase price, net of an estimated working capital adjustment due to the Company, has been allocated as follows:

Accounts receivable	$	55,950
Inventory		8,460
Prepaid expenses and other current assets		990
Fixed assets		3,895
Trade name		16,600
Customer relationships		7,900
Non-compete agreement		300
Other assets		108
Accounts payable		(40,475)
Accrued expenses		(7,784)
Income tax payable		(3,082)
Deferred tax liability		(8,491)
Total fair value excluding goodwill		34,371
Goodwill		31,003
Net assets acquired	$	65,374

Contingent consideration classified as a liability will be remeasured at fair value at each reporting date, until the contingency is resolved, with changes recognized in earnings. The trade name, customer relationships, non-compete agreement and goodwill related to this transaction are not deductible for tax purposes.

The Company incurred approximately $529 in acquisition related costs applicable to the Topline transaction during the year ended December 31, 2011. These expenses were included in operating expenses in the Company's Condensed Consolidated Statements of Income.

The results of operations of SM Canada, Cejon and Topline have been included in the Company's Condensed Consolidated Statements of Income from the date of the acquisition. Unaudited pro forma information related to these acquisitions is not included, as the impact of these transactions is not material to the Company's consolidated results.

($ in thousands except share and per share data)

Note R – Goodwill and Intangible Assets

The following is a summary of the carrying amount of goodwill by segment as of September 30, 2012:

	Wholesale						
	Footwear		Accessories		Retail		Net Carrying Amount
Balance at January 1, 2012	$	20,939	$	49,155	5,501	$	75,595
Purchase accounting adjustment		11,610		169	—		11,779
Acquisition of SM Canada		2,971		—	1,214		4,185
Balance at September 30, 2012	$	35,520	$	49,324	6,715	$	91,559

Pursuant to the final reconciliation of assets and liabilities acquired in the Topline and Cejon acquisitions, adjustments to goodwill were recorded in the amount of $11,610 and $169, respectively.

The following table details identifiable intangible assets as of September 30, 2012:

	Estimated Lives		Cost Basis		Accumulated Amortization		Net Carrying Amount
Trade names	6–10 years	$	4,590	$	1,509	$	3,081
Customer relationships	10 years		27,234		6,897		20,337
License agreements	3–6 years		5,600		5,600		—
Non-compete agreement	5 years		2,440		1,446		994
Other	3 years		14		14		—
			39,878		15,466		24,412
Re-acquired right	indefinite		35,200		—		35,200
Tradenames	indefinite		76,888		—		76,888
		$	151,966	$	15,466	$	136,500

The estimated future amortization expense of purchased intangibles as of September 30, 2012 is as follows:

2012 (remaining three months)	$	838
2013		3,351
2014		3,286
2015		3,101
2016		2,795
Thereafter		11,041
	$	24,412

Note S – Commitments, Contingencies and Other

Legal proceedings:

(a) On July 19, 2011, an individual purporting to act on behalf of a class of similarly situated individuals commenced a civil action in the United States District Court for the Central District of California, *Samantha Ellison, individually and on behalf of a class of similarly situated individuals v. Steven Madden, Ltd.*, No. CV11-05935 (the "Ellison Action"). The Ellison Action asserts that the Company made unsolicited commercial text calls to wireless telephone numbers of the class members in violation of the Telecommunications Privacy Act and seeks, on behalf of the class, an injunction requiring the Company to cease all wireless spam activities and an award of statutory damages to the class members together with costs and reasonable attorneys' fees. The Company responded by challenging the suit on several grounds. Settlement discussions have resulted in a settlement being reached on July 30, 2012 for an aggregate gross fund amount of $10,000, including all settlement costs and administration fees, as well as the fees recoverable by class counsel. As the settlement calls for the reversion of all monies not paid to class claimants, it is possible that the actual settlement amount paid will be substantially less than $10,000. In addition, the Company's insurance coverage will cover a portion of the settlement at the rate of 45% of the initial settlement payment of $5,000 and 30% of amounts over and above the initial settlement payment. On September 25, 2012 the court certified the class for settlement purposes only and approved the settlement on a preliminary basis. The court further ordered all litigants to make further submissions to the court concerning, among other things, the merits and value of the case and to deliver notice of the proposed settlement to all class members prior to a fairness hearing and final approval of the settlement. Based on the settlement as contemplated and applying the insurance coverage as applicable, the maximum exposure to the Company is approximately $6,250; however, in light of historical "take rates" in cases of this type, the Company's counsel estimates that the actual liability to the Company will be between approximately $2,000 and $2,500. Accordingly, the Company recorded a liability in the amount of $2,500 in the second quarter of 2012. This liability is subject to change to reflect any change in the status of this matter.

(b) On February 2, 2012, two individuals purporting to be stockholders of the Company commenced separate civil actions in the Supreme Court of New York, Queens County, *Mark Ioffe, Derivatively on Behalf of Nominal Defendant Steven Madden, Ltd. v. Steven Madden, et. al*, No. 700188-2012 (the "Ioffe Action") and *Catherine L. Phillips, Derivatively on Behalf of Nominal Defendant Steven Madden, Ltd. v. Steven Madden, et. al*, No. 700189-2012 (together with the Ioffe Action, the "Actions"). The Actions assert derivative claims challenging the decision of the Company's Board of Directors in January 2012 to amend Steven Madden's employment agreement dated July 15, 2005, and amended as of December 14, 2009 (the "Madden Employment Agreement") and to amend the promissory note (the "Promissory Note") setting forth Mr. Madden's obligations in respect of a loan made by the Company to Mr. Madden in 2007 and amended in 2009. The Actions assert that the Board violated its duties of loyalty and good faith by approving the amendments to the Madden Employment Agreement and the Promissory Note and that the changes set forth in the amendments constitute a waste of corporate assets. The Actions also assert claims of unjust enrichment against Mr. Madden. The Actions seek, on behalf of the Company, disgorgement of any compensation that Mr. Madden has received as a result of the amended Madden Employment Agreement, an award of damages to the Company, and a declaration that the amendments of the Madden Employment Agreement and the Promissory Note are void. The Company and the other defendants filed a motion for dismissal of the Actions based on, among other things, the plaintiffs' failure to make a demand that the Company's Board of Directors investigate their claims. On September 13, 2012 the court granted the defendants' motion to dismiss the Actions. As of the date hereof, the plaintiffs have not filed a notice of appeal with respect to the dismissal of the actions.

(c) On August 10, 2005, following the conclusion of an audit of the Company conducted by auditors for U.S. Customs and Border Protection ("U.S. Customs") during 2004 and 2005, U.S. Customs issued a report that asserts that certain commissions that the Company treated as "buying agents' commissions" (which are non-dutiable) should be treated as "selling agents' commissions" and hence are dutiable. Subsequently, U.S. Immigration and Customs Enforcement notified the Company's legal counsel that a formal investigation of the Company's importing practices had been commenced as a result of the audit. In September of 2007, U.S. Customs notified the Company that it had finalized its assessment of the underpaid duties at $1,400. The Company, with the advice of legal counsel, evaluated the liability in the case, including additional duties, interest and penalties, and believed that it was not likely to exceed $3,045, and accordingly, a liability for this amount was recorded as of December 31, 2009. The Company contested the conclusions of the U.S. Customs audit and filed a request for review and issuance of rulings thereon by U.S. Customs

Note S – Commitments, Contingencies and Other (continued)

Headquarters, of Regulations and Rulings, under internal advice procedures. On September 20, 2010, the Company was advised by legal counsel that U.S. Customs had issued a ruling in the matter, concluding that the commissions paid by the Company pursuant to buying agreements entered into by the Company and one of its two buying agents under review were *bona fide* buying-agent commissions and, therefore, were non-dutiable. With respect to the second
buying agent, U.S. Customs also ruled that beginning in February of 2002, commissions paid by the Company were *bona fide* buying agent commissions and, therefore, were non-dutiable. However, U.S. Customs found that the Company's pre-2002 buying agreements with the second agent were legally insufficient to substantiate a buyer-buyer's agent relationship between the Company and the agent and that commissions paid to the second agent under such buying agreements, in fact, were dutiable. On the basis of the U.S. Customs ruling, the Company reevaluated the liability in the case and believes that it is not likely to exceed $1,248 and the liability was reduced from $3,045 to such amount as of September 30, 2010.

On November 21, 2011, U.S. Customs issued a pre-penalty notice to the Company in which it alleges that gross negligence by the Company resulted in an underpayment of duties with respect to certain pre-2002 buying agreements and claims that the Company owes $342 as an additional duty and $1,367 in monetary penalties. In its February 16, 2012 response to the pre-penalty notice, the Company submitted that it owes no additional duty and, further, did not through negligence or gross negligence fail to pay any duty or engage in conduct amounting to either gross negligence or negligence. The Company requested that U.S. Customs withdraw its proposal to issue a notice of penalty and take no further adverse action against the Company. In the event that U.S. Customs is not inclined to withdraw the pre-penalty notice after review of the Company's response, the Company has requested the opportunity to make an oral presentation to U.S. Customs prior to the issuance of a notice of penalty. In the event that U.S. Customs decides to issue a notice of penalty, the Company intends to file a petition for relief requesting a reduction of the level of culpability and mitigation of the penalty amount assessed. The maximum total amount of damages related to this matter is approximately $1,700 for which the Company has accrued $1,248.

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

Note T – Operating Segment Information

The Company operates the following business segments: Wholesale Footwear, Wholesale Accessories, Retail, First Cost and Licensing. The Wholesale Footwear segment, through sales to department stores, mid-tier retailers, mass merchants and specialty stores, derives revenue, both domestically and worldwide through our international business, from sales of branded and private label women's, men's, girls' and children's footwear. The Wholesale Accessories segment, which includes branded and private label handbags, belts and small leather goods as well as cold weather and selected other fashion accessories, derives revenue from sales to department stores, mid-tier retailers, mass merchants and specialty stores, domestically and worldwide through our international business. Our Wholesale Footwear and Wholesale Accessories segments international business derive revenue from Canada and, under special distribution arrangements, from Asia, Europe, the Middle East, Mexico, Australia, India and Central and South America. The Retail segment, through the operation of Company-owned retail stores in the United States and Canada and the Company's websites, derives revenue from sales of branded women's, men's and children's footwear, accessories and licensed products to consumers. The First Cost segment represents activities of a subsidiary which earns commissions for serving as a buying agent of footwear products to mass-market merchandisers, mid-tier department stores and other retailers with respect to their purchase of footwear. In the Licensing segment, the Company licenses its Steve Madden® and Steven by Steve Madden® trademarks and other trademark rights for use in connection with the manufacture, marketing and sale of sunglasses, eyewear, outerwear, bedding, hosiery and sleepwear. In addition, this segment licenses the Betsey Johnson® trademarks for use in connection with the manufacture, marketing and sale of sleepwear, jewelry, swimwear, eyewear, watches, fragrances, outerwear and luggage.

Notes to Condensed Consolidated Financial Statements – Unaudited
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($ in thousands except share and per share data)

Note T – Operating Segment Information (continued)

As of and three months ended,	Wholesale Footwear	Wholesale Accessories	Total Wholesale	Retail	First Cost	Licensing	Corporate	Consolidated
September 30, 2012:								
Net sales to external customers	$ 228,720	$ 82,818	$ 311,538	$ 45,345				$ 356,883
Gross profit	75,785	27,918	103,703	27,512				131,215
Commissions and licensing fees – net	—	—	—	—	$ 2,157	$ 1,718		3,875
Income from operations	38,357	15,089	53,446	4,196	2,157	1,718	(5,144)	56,373
Segment assets	$ 488,937	$ 167,127	656,064	86,085	53,159	—		795,308
Capital expenditures			$ 3,441	$ 4,146	$ —	$ —		$ 7,587
September 30, 2011:								
Net sales to external customers	$ 211,223	$ 67,030	$ 278,253	$ 35,634				$ 313,887
Gross profit	66,652	21,973	88,625	20,828				109,453
Commissions and licensing fees – net	—	—	—	—	$ 3,318	$ 2,331		5,649
Income from operations	31,616	10,974	42,590	2,269	3,318	2,331	—	50,508
Segment assets	$ 374,329	$ 157,369	531,698	69,242	50,074	—		651,014
Capital expenditures			$ 4,558	$ 1,715	$ —	$ —		$ 6,273

As of and nine months ended,	Wholesale Footwear	Wholesale Accessories	Total Wholesale	Retail	First Cost	Licensing	Corporate	Consolidated
September 30, 2012:								
Net sales to external customers	$ 618,914	$ 169,700	$ 788,614	$ 122,931				$ 911,545
Gross profit	193,964	62,000	255,964	75,598				331,562
Commissions and licensing fees – net	—	—	—	—	$ 6,897	$ 5,703		12,600
Income from operations	86,537	28,914	115,451	10,629	6,897	5,703	(9,454)	129,226
Segment assets	$ 488,937	$ 167,127	656,064	86,085	53,159	—		795,308
Capital expenditures			$ 5,574	$ 10,043	$ —	$ —		$ 15,617
September 30, 2011:								
Net sales to external customers	$ 468,204	$ 119,480	$ 587,684	$ 101,110				$ 688,794
Gross profit	159,315	42,213	201,528	61,152				262,680
Commissions and licensing fees – net	—	—	—	—	$ 8,605	$ 6,043		14,648
Income from operations	73,713	18,620	92,333	8,170	8,605	6,043	—	115,151
Segment assets	$ 374,329	$ 157,369	531,698	69,242	50,074	—		651,014
Capital expenditures			$ 8,195	$ 4,051	$ —	$ —		$ 12,246

($ in thousands except share and per share data)

Note T – Operating Segment Information (continued)

Revenues by geographic area for the three- and nine-month periods ended September 30, 2012 and 2011 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Domestic	**$ 327,965**	$ 297,873	**$ 847,020**	$ 650,408
International	**28,918**	16,014	**64,525**	38,386
Total	**$ 356,883**	$ 313,887	**$ 911,545**	$ 688,794

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

The following discussion of our financial condition and results of operations should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and notes thereto appearing elsewhere in this document.

This Quarterly Report contains certain “forward-looking statements” as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally, forward-looking statements relate to business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, projected or anticipated benefits from acquisitions to be made by us, or projections involving anticipated revenues, earnings or other aspects of our operating results. The words “may”, “will”, “expect”, “believe”, “anticipate”, “project”, “plan”, “intend”, “estimate”, and “continue”, and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, that may influence the accuracy of the statements and the projections upon which the statements are based. Factors that may affect our results include, but are not limited to, the risks and uncertainties discussed in our Annual Report on Form 10-K for the year ended December 31, 2011. Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.

Overview:
($ in thousands, except retail sales data per square foot, earnings per share and per share data)

Steven Madden, Ltd. and its subsidiaries (collectively the “Company”) design, source, market and sell fashion-forward branded and private label footwear for women, men and children. In addition, we design, source, market and sell name brand and private label fashion handbags and accessories, through our Accessories Division. We distribute our products through department stores, specialty stores, luxury retailers, national chains, mass merchants and in our retail stores and our e-commerce websites throughout the United States, Canada and under special distribution arrangements in Asia, Europe, the Middle East, Mexico, Australia, India and Central and South America. Our product line includes a broad range of contemporary styles designed to establish or capitalize on market trends, complemented by core product offerings. We have established a reputation for design creativity and our ability to offer quality products in popular styles at accessible price points.

We achieved record sales and earnings results in the third quarter of 2012. Net sales for the three months ended September 30, 2012 increased 14% to $356,883 from $313,887 in the same period of last year. Net income increased 18% to $37,896 in the third quarter of 2012 compared to $31,911 in the same period of last year. Net income included $5,144 in impairment charges and $852 in bad debt expense related to the recently filed bankruptcy of Bakers LLC,. The effective tax rate for the third quarter of 2012 decreased to 35.4% compared to 39.0% in the third quarter of last year due primarily to a tax benefit of $2,109 related to the third quarter impact of a portion of earnings from the Company's foreign operations that have been invested indefinitely in the acquisition and expansion of SM Canada. Inclusive of the charges related to the Bakers bankruptcy, which negatively impacted earnings per share by $0.08, diluted earnings per share increased to $0.86 per share on 44,237,000 diluted weighted average shares outstanding compared to $0.74 per share on 43,407,000 diluted weighted average shares outstanding in the third quarter of last year.

In our Retail segment, same store sales (sales of those stores, including the e-commerce website, that were in operation throughout the third quarters of 2012 and 2011) increased 8.6%, and sales per square foot increased to $904 in 2012 compared to sales per square foot of $840 (recomputed using the current year's methodology) in 2011. As of September 30, 2012, we had 99 stores in operation, compared to 82 stores as of September 30, 2011.

Our inventory turnover (calculated on a trailing twelve month average) increased to 10.6 times compared to 9.5 times in the comparable period of last year. Our accounts receivable average collection days were 66 days in the third quarter of 2012 compared to 62 days in the same period of 2011, primarily due to the significant growth in our private label business and our international business, both of which have customers with extended payment terms. As of September 30, 2012, we had $154,355 in cash, cash equivalents and marketable securities, no short or long-term debt and total stockholders’ equity of $586,354. Working capital increased to $274,197 as of September 30, 2012, compared to $197,553 on September 30, 2011.

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

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

	2012		2011	
CONSOLIDATED:				
Net sales	$ **356,883**	**100.0%**	$ 313,887	100.0%
Cost of sales	**225,668**	**63.2%**	204,434	65.1%
Gross profit	**131,215**	**36.8%**	109,453	34.9%
Other operating income – net of expenses	**3,875**	**1.1%**	5,649	1.8%
Operating expenses	**73,573**	**20.6%**	64,594	20.6%
Impairment charges and provision for litigation	**5,144**	**1.4%**	—	—%
Income from operations	**56,373**	**15.8%**	50,508	16.1%
Interest and other income – net	**2,138**	**0.6%**	1,732	0.6%
Income before income taxes	**58,511**	**16.4%**	52,240	16.6%
Net income	**37,896**	**10.6%**	31,911	10.2%
By Segment:				
WHOLESALE FOOTWEAR SEGMENT:				
Net sales	$ **228,720**	**100.0%**	$ 211,223	100.0%
Cost of sales	**152,935**	**66.9%**	144,571	68.4%
Gross profit	**75,785**	**33.1%**	66,652	31.6%
Operating expenses	**37,428**	**16.4%**	35,036	16.6%
Income from operations - before impairment charges and provision for litigation	**38,357**	**16.8%**	31,616	15.0%
WHOLESALE ACCESSORIES SEGMENT:				
Net sales	$ **82,818**	**100.0%**	$ 67,030	100.0%
Cost of sales	**54,900**	**66.3%**	45,057	67.2%
Gross profit	**27,918**	**33.7%**	21,973	32.8%
Operating expenses	**12,829**	**15.5%**	10,999	16.4%
Income from operations - before impairment charges and provision for litigation	**15,089**	**18.2%**	10,974	16.4%
RETAIL SEGMENT:				
Net sales	$ **45,345**	**100.0%**	$ 35,634	100.0%
Cost of sales	**17,833**	**39.3%**	14,806	41.6%
Gross profit	**27,512**	**60.7%**	20,828	58.4%
Operating expenses	**23,316**	**51.4%**	18,559	52.1%
Income from operations - before impairment charges and provision for litigation	**4,196**	**9.3%**	2,269	6.4%
Number of stores	**99**		82	
FIRST COST SEGMENT:				
Other commission income – net of expenses	$ **2,157**	**100.0%**	$ 3,318	100.0%
LICENSING SEGMENT:				
Licensing income – net of expenses	$ **1,718**	**100.0%**	$ 2,331	100.0%

Selected Financial Information
Nine Months Ended September 30,
($ in thousands)

	2012			2011		
CONSOLIDATED:						
Net sales	**$**	**911,545**	**100.0%**	$	688,794	100.0%
Cost of sales		**579,983**	**63.6%**		426,114	61.9%
Gross profit		**331,562**	**36.4%**		262,680	38.1%
Other operating income – net of expenses		**12,600**	**1.4%**		14,648	2.1%
Operating expenses		**205,482**	**22.5%**		162,177	23.5%
Impairment charges and provision for litigation		**9,454**	**1.0%**		—	—%
Income from operations		**129,226**	**14.2%**		115,151	16.7%
Interest and other income – net		**4,271**	**0.5%**		4,905	0.7%
Income before income taxes		**133,497**	**14.6%**		120,056	17.4%
Net income		**86,663**	**9.5%**		73,547	10.7%
By Segment:						
WHOLESALE FOOTWEAR SEGMENT:						
Net sales	**$**	**618,914**	**100.0%**	$	468,204	100.0%
Cost of sales		**424,950**	**68.7%**		308,889	66.0%
Gross profit		**193,964**	**31.3%**		159,315	34.0%
Operating expenses		**107,427**	**17.4%**		85,602	18.3%
Income from operations - before impairment charges and provision for litigation		**86,537**	**14.0%**		73,713	15.7%
WHOLESALE ACCESSORIES SEGMENT:						
Net sales	**$**	**169,700**	**100.0%**	$	119,480	100.0%
Cost of sales		**107,700**	**63.5%**		77,267	64.7%
Gross profit		**62,000**	**36.5%**		42,213	35.3%
Operating expenses		**33,086**	**19.5%**		23,593	19.7%
Income from operations - before impairment charges and provision for litigation		**28,914**	**17.0%**		18,620	15.6%
RETAIL SEGMENT:						
Net sales	**$**	**122,931**	**100.0%**	$	101,110	100.0%
Cost of sales		**47,333**	**38.5%**		39,958	39.5%
Gross profit		**75,598**	**61.5%**		61,152	60.5%
Operating expenses		**64,969**	**52.8%**		52,982	52.4%
Income from operations - before impairment charges and provision for litigation		**10,629**	**8.6%**		8,170	8.1%
Number of stores		**99**			82	
FIRST COST SEGMENT:						
Other commission income – net of expenses	**$**	**6,897**	**100.0%**	$	8,605	100.0%
LICENSING SEGMENT:						
Licensing income – net of expenses	**$**	**5,703**	**100.0%**	$	6,043	100.0%

RESULTS OF OPERATIONS
($ in thousands)

Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011

Consolidated:

Net sales for the three months ended September 30, 2012 increased 14% to $356,883 compared to $313,887 in the same period of last year. Gross margin improvements across all of our operating segments propelled an increase in overall gross margin to 36.8% for the third quarter of 2012 compared to 34.9% in the third quarter of 2011. Operating expenses increased in the third quarter of this year to $73,573 from $64,594 in the third quarter of last year, partially due to incremental expenses related to the recently acquired SM Canada. In the third quarter of 2012, we recorded $5,144 in impairment charges resulting from the Bakers bankruptcy. Our commission and licensing fee income decreased to $3,875 in the third quarter of 2012 compared to $5,649 in the third quarter of 2011, partially due to a $852 bad debt expense pursuant to the Bakers bankruptcy. The effective tax rate for the third quarter of 2012 decreased to 35.4% compared to 39.0% in the third quarter of last year due primarily to a tax benefit of $2,109 related to the third quarter impact of a portion of earnings from the Company's foreign operations that have been invested indefinitely in the acquisition and expansion of SM Canada. Net income for the third quarter of 2012 increased 18% to $37,896 compared to net income for the quarter ended September 30, 2011 of $31,911.

Wholesale Footwear Segment:

Net sales from the Wholesale Footwear segment accounted for $228,720 or 64%, and $211,223 or 67% of our total net sales for the third quarter of 2012 and 2011, respectively. The increase in net sales in the quarter is primarily due to double digit sales increases in our signature Steve Madden® Women's brand, Betsey Johnson® shoes and our private label shoe business. In addition, our new Superga brand, which began shipping in the first quarter of this year and our new Betseyville® shoe brand, which began shipping in the current quarter, contributed to the increase of net sales in the third quarter of 2012. Finally, the increase in net sales is partially due to incremental sales from our new SM Canada business, which we acquired in February of this year.

Gross profit margin in the Wholesale Footwear segment increased to 33.1% in the third quarter of 2012 from 31.6% in the same period last year, primarily due to a decrease in markdowns and allowances primarily in Steve Madden Women's and in several of our other brands. In addition, the gross profit margin in our private label business increased 480 basis points in the third quarter of 2012 when compared to the same period of last year, primarily due to an improved sourcing model. Operating expenses increased to $37,428 in the third quarter of 2012 from $35,036 in the same period of last year. As a percentage of sales, operating expenses improved to 16.4% in the third quarter of 2012 from 16.6% in the same period of 2011, reflecting leverage from increased sales. Income from operations for the Wholesale Footwear segment increased to $38,357 for the quarter ended September 30, 2012 compared to $31,616 for the same period of last year.

Wholesale Accessories Segment:

Net sales generated by the Wholesale Accessories segment accounted for $82,818 or 23%, and 67,030 or 21% of total Company net sales for the third quarters of 2012 and 2011, respectively. This 24% increase in net sales in the third quarter of 2012 was propelled by a more than 100% net sales increase in Steve Madden® handbags and a 52% net sales increase in our private label business. We also realized double digit sales increases in our Big Buddha® brand and in our belt business, as well as single digit net sales increases in our Betsey Johnson® and Cejon® brands in the third quarter of 2012.

Gross profit margin in the Wholesale Accessories segment increased to 33.7% in the third quarter of this year from 32.8% in the same period last year, primarily due to the significant growth of our Steve Madden® and Big Buddha® handbag businesses, which typically achieve higher gross margins. In addition, the increase is the result of a gross profit margin increase in our private label business of 910 basis points, due to an increase in initial margins. In the third quarter of 2012, operating expenses increased to $12,829 compared to $10,999 in the prior year. As a percentage of sales, operating expenses improved to 15.5% in the third quarter of 2012 from 16.4% in the same period of 2011, reflecting leverage from increased sales. Income from operations for the Wholesale Accessories segment increased 37% to $15,089 for the three-month period ended September 30, 2012 compared to $10,974 for the same period of last year.

Retail Segment:

In the third quarter of 2012, net sales from the Retail segment accounted for $45,345 or 13% of our total net sales compared to $35,634 or 11% of our total net sales in the same period last year. We opened fourteen new stores, acquired seven stores as part of the acquisition of SM Canada, established a Superga online store and closed five under-performing stores during the twelve months ended September 30, 2012. As a result, we had 99 retail stores as of September 30, 2012 compared to 82 stores as of September 30, 2011. The 99 stores currently in operation include 84 Steve Madden® stores, eight Steve Madden® outlet stores, three Steven® stores, one Report® store, one Superga store and two e-commerce websites. Comparable store sales (sales of those stores, including the e-commerce websites, that were open throughout the third quarters of 2012 and 2011) increased 8.6% in the third quarter of this year. In the quarter ended September 30, 2012, gross margin increased to 60.7% from 58.4% in the same period of 2011, primarily due to the impact of the ten new stores currently open in Canada which achieve significantly higher gross profit margins than stores located in the U.S. In the third quarter of 2012, operating expenses increased to $23,316 compared to $18,599 in the third quarter of last year, primarily due to the incremental cost associated with the net year-over-year increase of seventeen stores. As a percentage of sales, operating expenses improved to 51.4% in the third quarter of 2012 from 52.1% in the same period of last year, reflecting leverage from increased sales. Income from operations for the Retail segment increased to $4,196 in the second quarter of this year from $2,269 in the same period of last year.

<u>First Cost Segment</u>:

The First Cost segment generated net commission income and design fees of $2,157 for the three-month period ended September 30, 2012, compared to $3,318 for the comparable period of 2011. This decrease is primarily due to a $852 bad debt expense pursuant to the Bakers bankruptcy as well as a decline in business with Bakers during the third quarter of 2012.

<u>Licensing Segment</u>:

Net licensing income was $1,718 and $2,331 for the three months ended September 30, 2012 and 2011, respectively. The decrease in net licensing revenue is partially due to an increase in marketing expenditures for the Betsey Johnson brand.

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

<u>Consolidated</u>:

Net sales for the nine months ended September 30, 2012 increased 32% to $911,545 from $688,794 for the comparable period of 2011. During the nine months ended September 30, 2012, gross margin decreased to 36.4% compared to 38.1% in the same period of last year, primarily due to sales mix shifts in our Wholesale Footwear segment as a result of the addition of the Topline business, and significant sales increases in our Target private label business and our international business, which typically achieve lower gross margins. Operating expenses increased for the nine months ended September 30, 2012 to $205,482 from $162,177 in the same period of the prior year, primarily due to incremental costs associated with the aforementioned new divisions, SM Canada, Topline and Cejon. As a percentage of sales, operating expenses decreased in the first nine months of this year to 22.5% from 23.5% in the same period of last year. During the nine months ended September 30, 2012, we recorded impairment charges of $6,954 related to the bankruptcies of Betsey Johnson and Bakers, and recorded an expense of $2,500 for a class action lawsuit related to unauthorized text messaging. Commission and licensing fee income decreased to $12,600 in the first nine months of 2012 compared to $14,648 in the first nine months of 2011, partially due to a $852 bad debt expense pursuant to the Bakers bankruptcy. The effective tax rate for the nine months ended 2012 decreased to 35.1% compared to 38.8% in the same period of last year due primarily to a tax benefit of $4,983 related to the year-to-date impact of a portion of earnings from the Company's foreign operations that have been invested indefinitely in the acquisition and expansion of SM Canada. Net income increased 18% to $86,663 in the first nine months of this year compared to $73,547 in the same period last year.

<u>Wholesale Footwear Segment</u>:

Net sales from the Wholesale Footwear segment accounted for $618,914 or 68% and $468,204 or 68% of our total net sales for the first nine months of 2012 and 2011, respectively. The increase in net sales is partially due to incremental sales from our recently acquired SM Canada business and our Topline business acquired in May 2011. Organic net sales growth was driven by a 45% increase in net sales in our wholesale private label business. The increase in net sales is also due to double digit sales increases in our signature Steve Madden® Women's brand and the Betsey Johnson® shoe brand. In addition, our new Superga® brand, which began shipping in the first quarter of this year and our new Betseyville® shoe brand, which began shipping in the current quarter, contributed to the increase in net sales in the first nine months of 2012.

Gross profit margin decreased to 31.3% in the first nine months of this year from 34.0% in the same period last year, primarily due to sales mix shifts as a result of the addition of the Topline business, and significant sales increases in our Target private label business and our international business, which typically achieve lower gross margins. In the first nine months of 2012, operating expenses increased to $107,427 from $85,602 in the same period of 2011. As a percentage of sales, operating expenses improved to 17.4% in the first nine months of 2012 from 18.3% in the same period of last year, reflecting leverage from increased sales. Income from operations for the Wholesale Footwear segment increased to $86,537 for the nine-month period ended September 30, 2012 compared to $73,713 for the same period of 2011.

Wholesale Accessories Segment:

Net sales generated by the Wholesale Accessories segment accounted for $169,700 or 19% and $119,480 or 17% of total Company net sales for the nine months ended September 30, 2012 and 2011, respectively. This increase in net sales is partially due to sales contributed by our new Cejon business, which we acquired in the second quarter of 2011. Exclusive of Cejon, organic growth in the Accessories segment was 41%. This increase in organic sales was driven by strong sales results across all the accessories product lines including a 117% net sales increase in Steve Madden® handbags followed by a 40% increase in Betsey Johnson® handbags, a 24% increase in our private label business and a 21% increase in Big Buddha® handbags.

Gross profit margin in the Wholesale Accessories segment increased to 36.5% in the first nine months of this year from 35.3% in the same period last year, primarily due to the significant growth of our Steve Madden® and Betsey Johnson® handbag businesses, which typically achieve higher gross margins. In the first nine months of 2012, operating expenses increased to $33,086 compared to $23,593 in the first nine months of 2011. As a percentage of sales, operating expenses improved to 19.5% in the first nine months of 2012 from 19.7% in the same period of 2011, reflecting leverage from increased sales. Income from operations for the Wholesale Accessories segment increased 55% to $28,914 for the nine months ended September 30, 2012 compared to $18,620 for the same period of 2011.

Retail Segment:

In the first nine months of 2012, net sales from the Retail segment accounted for $122,931 or 13% of our total net sales compared to $101,110 or 15% of total net sales in the same period last year. We opened fourteen new stores, acquired seven stores as part of the acquisition of SM Canada, established a Superga® online store and closed five under-performing stores during the twelve months ended September 30, 2012. As a result, we had 99 retail stores as of September 30, 2012 compared to 82 stores as of September 30, 2011. The 99 stores currently in operation include 84 Steve Madden® stores, eight Steve Madden® outlet stores, three Steven® stores, one Report® store, one Superga® store and two e-commerce websites. Comparable store sales (sales of those stores, including the e-commerce websites, that were open throughout the first nine months of 2012 and 2011) increased 9% in the first nine months of this year. The gross margin in the Retail segment increased to 61.5% in the nine months ended September 30, 2012 from 60.5% in the corresponding nine months of 2011, primarily due to the impact of the ten new stores currently open in Canada which achieve significantly higher gross profit margins than stores located in the U.S as well as improved operating efficiencies. During the first nine months of 2012, operating expenses were $64,969 compared to $52,982 in the same period of last year, primarily due to the incremental cost associated with the net year-over-year increase of seventeen stores. For the nine months ended September 30, 2012, income from operations for the Retail segment increased to $10,629 compared to $8,170 for the same period in 2011.

First Cost Segment:

The First Cost segment generated net commission income and design fees of $6,897 for the nine-month period ended September 30, 2012 compared to $8,605 for the comparable period of 2011. This decrease is primarily due to a $852 bad debt expense pursuant to the Bakers bankruptcy as well as a decline in business with Bakers during the first nine months of 2012.

Licensing Segment:

During the nine months ended September 30, 2012, net licensing income decreased to $5,703 from $6,043 in the same period of last year.

LIQUIDITY AND CAPITAL RESOURCES
($ in thousands)

The Company has a collection agency agreement with Rosenthal & Rosenthal, Inc. ("Rosenthal"). The agreement provides us with a credit facility in the amount of $30,000, having a sub-limit of $15,000 on the aggregate face amount of letters of credit, at an interest rate based, at our election, upon either the prime rate or LIBOR. The agreement can be terminated by the Company or Rosenthal at any time with 60 days' prior written notice.

As of September 30, 2012, we had working capital of $274,197. We had cash and cash equivalents of $64,927, investments in marketable securities of $89,428 and we did not have any long term debt.

We believe that based upon our current financial position and available cash, cash equivalents and marketable securities, we will meet all of our financial commitments and operating needs for at least the next twelve months.

OPERATING ACTIVITIES
($ in thousands)

Cash provided by operations was $14,758 in the first nine months of 2012 compared to cash provided by operations of $7,385 in the same period of last year. The primary sources of cash were net income of $86,628, an increase in accounts payable and other accrued expenses of $20,896 and a decrease of accounts receivable of $5,496. The primary uses of cash were increases of due from factor, inventories and prepaid expenses, deposits and other assets of $96,899, $22,180 and $5,792, respectively.

INVESTING ACTIVITIES
($ in thousands)

During the nine-month period ended September 30, 2012, we invested $48,955 in marketable securities and received $40,150 from the maturities and sales of securities. Also during the first nine months of 2012, we paid approximately $29,367 for the acquisition of SM Canada and, in connection with the acquisition, provided a loan in the amount of $3,085 to the seller of SM Canada. We also made capital expenditures of $15,617, principally for twelve new stores opened in the first nine months of 2012, improvements to existing stores, leasehold improvements to office space and systems enhancements.

FINANCING ACTIVITIES
($ in thousands)

During the nine-month period ended September 30, 2012, net cash provided by financing activities was $11,289, which consisted of proceeds from the exercise of stock options of $6,991 and the tax benefit from the exercise of options of $4,298.

CONTRACTUAL OBLIGATIONS
($ in thousands)

Our contractual obligations as of September 30, 2012 were as follows:

	Payment due by period				
Contractual Obligations	**Total**	**Remainder of 2012**	**2013-2014**	**2015-2016**	**2017 and after**
Operating lease obligations	$ 169,418	$ 6,410	$ 48,028	$ 44,230	$ 70,750
Purchase obligations	186,963	186,963	—	—	—
Contingent payment liability	57,751	17,791	18,785	17,121	4,054
Other long-term liabilities (future minimum royalty payments)	6,816	653	5,863	300	—
Total	$ 420,948	$ 211,817	$ 72,676	$ 61,651	$ 74,804

At September 30, 2012, we had un-negotiated open letters of credit for the purchase of inventory of approximately $1,608.

On January 3, 2012, the Company and its Creative and Design Chief, Steven Madden, entered into an amendment, dated as of December 31, 2011, to Mr. Madden’s existing employment agreement with the Company. The amended agreement, which extends the term of Mr. Madden's employment through December 31, 2023, provides for a base salary of approximately $5,416 in 2012, approximately $7,417 in 2013, approximately $9,667 in 2014, approximately $11,917 in 2015 and approximately $10,698 for the period between January 1, 2016 through the expiration of the term of employment. The employment agreement provides Mr. Madden with the right, exercisable on certain specified dates in fiscal year 2012 only, to elect to receive a grant of restricted stock for a number of shares of the Company’s common stock valued at $40,000 in consideration for a reduction in his annual base salary in years subsequent to 2012 as follows: $4,000 in 2013, approximately $6,125 in 2014, approximately $8,250 in 2015 and approximately $7,026 for the period between January 1, 2016 through the expiration of the employment agreement on December 31, 2023. On June 30, 2012, Mr. Madden exercised this right and on July 3, 2012 he was granted 1,262,228 restricted shares of the Company's common stock at the then market price of $31.69, which will vest in the same manner as the February 8, 2012 restricted stock grant received by Mr. Madden pursuant to the amended agreement. (See Note Q to the Condensed Consolidated Financial Statements.) Accordingly, Mr. Madden's annual base salary was reduced as described above. In addition to the opportunity for cash bonuses at the sole discretion of the Board of Directors, Mr. Madden’s employment agreement entitles him to an annual life insurance premium payment as well as an annual stock option grant and the potential for an additional one-time stock option grant based on achievement of certain financial performance criteria. The employment agreement also provides for the elimination of interest accrued after December 31, 2011 on an outstanding loan in the original principal amount of $3,000 made by the Company to Mr. Madden, the extension of the maturity date of such loan until December 31, 2023, and the forgiveness of 1/10th of the principal amount of the loan, together with accrued interest, annually over a ten-year period commencing on December 31, 2014 for so long as Mr. Madden continues to be employed by the Company on each such December 31. As a result of the elimination of further interest accumulation, the outstanding principal and the accrued interest as of December 31, 2011 has been discounted to reflect imputed interest, which will be amortized over the remaining life of the loan.

We have employment agreements with certain executive officers, which provide for the payment of compensation aggregating approximately $698 during the remaining three months of 2012, $1,580 in 2013 and $555 in 2014. In addition, some of the employment agreements provide for a discretionary bonus and some provide for incentive compensation based on various performance criteria as well as other benefits including stock options.

In connection with our acquisition of SM Canada on February 21, 2012, we are subject to potential earn-out payments to the seller of SM Canada based on the annual performance of SM Canada for each of the twelve-month periods ending on March 31, 2013 through 2017, inclusive. In connection with our acquisition of Cejon on May 25, 2011, we are subject to potential earn-out payments to the seller of Cejon based on the annual performance of Cejon for each of the twelve-month periods ending on June 30, 2012 through 2016, inclusive. The first such payment was made in the third quarter of this year. In connection with our acquisition of Topline on May 20, 2011, we are subject to potential earn-out payments to the seller of Topline based on the performance of Topline for the twelve-month period ended June 30, 2012. In connection with our acquisition of Big Buddha during the first fiscal quarter of 2010, we are subject to potential earn-out payments to the seller of Big Buddha based on the annual performance of Big Buddha for each of the twelve month periods ending on March 31, 2013.

Virtually all of our products are produced at overseas locations, the majority of which are located in China, with a small and growing percentage located in Mexico in addition to smaller amounts in Brazil, The Philippines, The Netherlands and India. We have not entered into any long-term manufacturing or supply contracts with any of these foreign manufacturers. We believe that a sufficient number of alternative sources exist outside of the United States for the manufacture of our products. We currently make approximately 99% of our purchases in US dollars.

INFLATION

We do not believe that the inflation experienced over the last few years in the United States, where we primarily compete, has had a significant effect on our sales or profitability. Historically, we have minimized the impact of product cost increases by improving operating efficiencies, changing suppliers and increasing prices. However, no assurance can be given that we will be able to offset such inflationary cost increases in the future.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

CRITICAL ACCOUNTING POLICIES AND THE USE OF ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our Condensed Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. Estimates by their nature are based on judgments and available information. Our estimates are made based upon historical factors, current circumstances and the experience and judgment of management. Assumptions and estimates are evaluated on an ongoing basis and we may employ outside experts to assist in evaluations. Therefore, actual results could materially differ from those estimates under different assumptions and conditions. Management believes the following critical accounting estimates are more significantly affected by judgments and estimates used in the preparation of our Condensed Consolidated Financial Statements: allowance for bad debts, returns, and customer chargebacks; inventory valuation; valuation of intangible assets and litigation reserves.

Allowances for bad debts, returns and customer chargebacks. We provide reserves against our trade accounts receivables for future customer chargebacks, co-op advertising allowances, discounts, returns and other miscellaneous deductions that relate to the current period. The reserve against our non-factored trade receivables also includes estimated losses that may result from customers' inability to pay. The amount of the reserve for bad debts, returns, discounts and compliance chargebacks are determined by analyzing aged receivables, current economic conditions, the prevailing retail environment and historical dilution levels for customers. We evaluate anticipated customer markdowns and advertising chargebacks by reviewing several performance indicators for our major customers. These performance indicators (which include inventory levels at the retail floors, sell through rates and gross margin levels) are analyzed by management to estimate the amount of the anticipated customer allowance. Failure to correctly estimate the amount of the reserve could materially impact our results of operations and financial position.

Inventory valuation. Inventories are stated at lower-of-cost or market, on a first-in, first-out basis. We review inventory on a regular basis for excess and slow moving inventory. The review is based on an analysis of inventory on hand, prior sales, and expected net realizable value through future sales. The analysis includes a review of inventory quantities on hand at period-end in relation to year-to-date sales and projections for sales in the foreseeable future as well as subsequent sales. We consider quantities on hand in excess of estimated future sales to be at risk for market impairment. The net realizable value, or market value, is determined based on the estimate of sales prices of such inventory through off-price or discount store channels. The likelihood of any material inventory write-down is dependent primarily on the expectation of future consumer demand for our product. A misinterpretation or misunderstanding of future consumer demand for our product, the economy, or other failure to estimate correctly, in addition to abnormal weather patterns, could result in inventory valuation changes, compared to the valuation determined to be appropriate as of the balance sheet date.

Valuation of intangible assets. Accounting Standards Codification ("ASC") Topic 350, "Intangible – Goodwill and Other", requires that goodwill and intangible assets with indefinite lives no longer be amortized, but rather be tested for impairment at least annually. This pronouncement also requires that intangible assets with finite lives be amortized over their respective lives to their estimated residual values, and reviewed for impairment in accordance with ASC Topic 360, "Property, Plant and Equipment" ("ASC Topic 360"). In accordance with ASC Topic 360, long-lived assets, such as property, equipment, leasehold improvements and intangible assets subject to amortization, are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Litigation reserves. Estimated amounts for litigation claims that are probable and can be reasonably estimated are recorded as liabilities in our Condensed Consolidated Financial Statements. The likelihood of a material change in these estimated reserves would be dependent on new claims as they may arise and the favorable or unfavorable events of a particular litigation. As additional information becomes available, management will assess the potential liability related to the pending litigation and revise its estimates. Such revisions in management's estimates of a contingent liability could materially impact our results of operation and financial position.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
($ in thousands)

We do not engage in the trading of market risk sensitive instruments in the normal course of business. Our financing arrangements are subject to variable interest rates, primarily based on the prime rate and LIBOR. The terms of our collection agency agreements with Rosenthal & Rosenthal, Inc. can be found in the Liquidity and Capital Resources section of Item 2 and in Note D to the Condensed Consolidated Financial Statements included in this Quarterly Report.

As of September 30, 2012, we held marketable securities valued at $89,428, which consist primarily of corporate bonds and marketable equity securities. The values of these securities may fluctuate as a result of changes in equity values, market interest rates and credit risk. We have the ability to hold these investments until maturity. In addition, any decline in interest rates would be expected to reduce our interest income.

ITEM 4. CONTROLS AND PROCEDURES

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934 (the “Exchange Act”), our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were, as of the end of the fiscal quarter covered by this quarterly report, effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(d) under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated our internal controls over financial reporting to determine whether any changes occurred during the quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this report.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
($ in thousands)

On July 19, 2011, an individual purporting to act on behalf of a class of similarly situated individuals commenced a civil action in the United States District Court for the Central District of California, *Samantha Ellison, individually and on behalf of a class of similarly situated individuals v. Steven Madden, Ltd.*, No. CV11-05935 (the “Ellison Action”). The Ellison Action asserts that the Company made unsolicited commercial text calls to wireless telephone numbers of the class in violation of the Telecommunications Privacy Act and seeks, on behalf of the class, an injunction requiring the Company to cease all wireless spam activities and an award of statutory damages to the class members together with costs and reasonable attorneys' fees. The Company responded by challenging the suit on several grounds. Settlement discussions have resulted in a settlement being reached on July 30, 2012 for an aggregate gross fund amount of $10,000, including all settlement costs and administration fees, as well as the fees recoverable by class counsel. As the settlement calls for the reversion of all monies not paid to class claimants, it is possible that the actual settlement amount paid will be substantially less than $10,000. In addition, the Company's insurance coverage will cover a portion of the settlement at the rate of 45% of the initial settlement payment of $5,000 and 30% of amounts over and above the initial settlement payment. On September 25, 2012, the court certified the class for settlement purposes only and approved the settlement on a preliminary basis. The court further ordered all litigants to make further submissions to the court concerning, among other thing, the merits and value of the case and to deliver notice of the proposed settlement to all class members prior to a fairness hearing and final approval of the settlement. Based on the settlement as contemplated and applying the insurance coverage as applicable, the maximum exposure to the Company is approximately $6,250, however, in light of historical "take rates" in cases of this type, counsel estimates that the actual liability to the Company will be between approximately $2,000 and $2,500. Accordingly, the Company has recorded a liability in the amount of $2,500 in the nine months ended September 30, 2012. This liability is subject to change to reflect any change in the status of this matter.

On February 2, 2012, two individuals purporting to be stockholders of the Company commenced separate civil actions in the Supreme Court of New York, Queens County, Mark Ioffe, Derivatively on Behalf of Nominal Defendant Steven Madden, Ltd. v. Steven Madden, et. al, No. 700188-2012 (the “Ioffe Action”) and Catherine L. Phillips, Derivatively on Behalf of Nominal Defendant Steven Madden, Ltd. v. Steven Madden, et. al, No. 700189-2012 (together with the Ioffe Action, the “Actions”). The Actions assert derivative claims challenging the decision of the Company’s Board of Directors in January 2012 to amend Steven Madden’s employment agreement dated July 15, 2005, and amended as of December 14, 2009 (the “Madden Employment Agreement”) and to amend the promissory note (the “Promissory Note”) setting forth Mr. Madden’s obligations in respect of a loan made by the Company to Mr. Madden in 2007 and amended in 2009. The Actions assert that the Board violated its duties of loyalty and good faith by approving the amendments to the Madden Employment Agreement and the Promissory Note and that the changes set forth in the amendments constitute a waste of corporate assets. The Actions also assert claims of unjust enrichment against Mr. Madden. The Actions seek, on behalf of the Company, disgorgement of any compensation that Mr. Madden has received as a result of the amended Madden Employment Agreement, an award of damages to the Company, and a declaration that the amendments of the Madden Employment Agreement and the Promissory Note are void. The Company and the other defendants filed a motion for dismissal of the Actions based on, among other things, the plaintiffs' failure to make a demand that the Company's Board of Directors investigate their claims. On September 13, 2012, the court granted the defendants' motion to dismiss the actions. As of the date hereof, the plaintiffs have not filed a notice of appeal with respect to the dismissal of the Actions.

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

ITEM 6. EXHIBITS

23.1	Consent of EisnerAmper LLP, an independent public accounting firm (incorporated by reference to Exhibit 23.1 to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on October 24, 2012)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101	The following materials from Steven Madden, Ltd.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text*

* This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any filing, except to the extent the Company specifically incorporates it by reference.

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

DATE: November 8, 2012

STEVEN MADDEN, LTD.

/s/ EDWARD R. ROSENFELD

Edward R. Rosenfeld
Chairman and Chief Executive Officer

/s/ ARVIND DHARIA

Arvind Dharia
Chief Financial Officer and Chief Accounting Officer

Exhibit Index

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Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES

EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302

OF THE SARBANES-OXLEY ACT OF 2002

I, Edward R. Rosenfeld, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Steven Madden, Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ EDWARD R. ROSENFELD

Edward R. Rosenfeld
Chairman and Chief Executive Officer
November 8, 2012

Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES

EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302

OF THE SARBANES-OXLEY ACT OF 2002

I, Arvind Dharia, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Steven Madden, Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ ARVIND DHARIA

Arvind Dharia
Chief Financial Officer and Chief Accounting Officer
November 8, 2012

Exhibit 32.1

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350

ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Steven Madden, Ltd. (the “Company”) on Form 10-Q for the quarter ended September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Edward R. Rosenfeld, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ EDWARD R. ROSENFELD

Edward R. Rosenfeld
Chairman and Chief Executive Officer
November 8, 2012

Exhibit 32.2

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350

ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Steven Madden, Ltd. (the “Company”) on Form 10-Q for the quarter ended September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Arvind Dharia, Chief Financial Officer and Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ARVIND DHARIA

Arvind Dharia
Chief Financial Officer and Chief Accounting Officer
November 8, 2012