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, 1998

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

For the transition period from __________________ to ___________________

For Quarter Ended September 30, 1998 Commission File Number 0-23702

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

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

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

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

Yes [X] No [ ]

Class	Outstanding as of November 05, 1998
Common Stock	10,876,893

STEVEN MADDEN, LTD.
FORM 10-Q
QUARTERLY REPORT
SEPTEMBER 30, 1998

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STEVEN MADDEN, LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

	September 30, 1998 (unaudited)	December 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,219,000	$ 3,887,000
Investments		1,991,000
Accounts receivable - nonfactored (net of allowances for doubtful accounts of $460,000 at September 30, 1998 and $351,000 at December 31, 1997)	838,000	1,127,000
Due from factor (net of allowances for doubtful accounts of $350,000 at September 30, 1998 and $335,000 at December 31, 1997)	10,200,000	4,821,000
Inventories	6,133,000	5,081,000
Prepaid advertising	278,000	441,000
Prepaid expenses and other current assets	1,512,000	1,698,000
Prepaid taxes	686,000	624,000
Total current assets	34,866,000	19,670,000
Property and equipment, net	7,701,000	5,931,000
Other assets:		
Prepaid advertising, less current portion	945,000	1,041,000
Deferred taxes	401,000	401,000
Deposits and other	206,000	258,000
Cost in excess of fair value of net assets acquired (net of accumulated amortization of $263,000 at September 30, 1998 and $170,000 at December 31, 1997)	2,501,000	1,976,000
Total other assets	4,053,000	3,676,000
	$ 46,620,000	$ 29,277,000
LIABILITIES		
Current liabilities:		
Current portion of lease payable	$ 99,000	$ 105,000
Accounts payable and accrued expenses	2,282,000	2,032,000
Accrued bonuses	194,000	593,000
Other current liabilities	351,000	395,000
Total current liabilities	2,926,000	3,125,000
Lease payable, less current portion	304,000	359,000
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock - $.0001 par value, 60,000,000 shares authorized, 10,876,393 issued and outstanding at September 30, 1998 and 8,429,073 issued and outstanding at December 31, 1997	1,000	1,000
Additional paid-in capital	36,262,000	21,721,000
Unearned compensation	(1,741,000)	(1,281,000)
Retained earnings	9,343,000	5,809,000
Treasury stock at cost (104,700 shares at September 30, 1998 and 101,800 shares at December 31, 1997)	(475,000)	(457,000)
	43,390,000	25,793,000
	$ 46,620,000	$ 29,277,000

See notes to financial statements

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Consolidated Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
Net sales	$ 23,991,000	$ 18,055,000	$ 59,235,000	$ 43,542,000
Cost of sales	13,908,000	10,192,000	34,593,000	26,208,000
Gross profit	10,083,000	7,863,000	24,642,000	17,334,000
Other revenue	992,000	748,000	2,535,000	1,601,000
Operating expenses	(7,872,000)	(7,108,000)	(21,004,000)	(16,159,000)
Income from operations	3,203,000	1,503,000	6,173,000	2,776,000
Interest income (expense), net	40,000	(25,000)	(32,000)	(27,000)
Income before provision for income taxes	3,243,000	1,478,000	6,141,000	2,749,000
Provision for income taxes	1,363,000	597,000	2,607,000	1,111,000
Net income	$ 1,880,000	$ 881,000	$ 3,534,000	$ 1,638,000
Basic income per share	$ .19	$ .11	$ .39	$ .21
Diluted income per share	$ .17	$ .10	$ .33	$ .17
Weighted average common shares outstanding - basic income per share	9,948,378	8,020,846	9,017,914	7,976,312
Effect of potential common shares	1,409,624	529,176	1,781,127	1,931,990
Weighted average common shares outstanding - diluted income per share	11,358,002	8,550,022	10,799,041	9,908,302

See notes to financial statements

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 1998	1997
Cash flows from operating activities:		
Net income	$ 3,534,000	$ 1,638,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	959,000	907,000
Deferred compensation	196,000	127,000
Provision for bad debts	124,000	181,000
Options issued for consulting services	142,000	23,000
Excess of fair market value over option price on stock option grant		16,000
Deferred rent expense	274,000	
Changes in:		
Accounts receivable - nonfactored	180,000	(201,000)
Due from factor	(5,394,000)	(2,919,000)
Inventories	(878,000)	(100,000)
Prepaid expenses and other assets	497,000	411,000
Accounts payable and accrued expenses	114,000	1,122,000
Accrued bonuses	(399,000)	95,000
Other current liabilities	(318,000)	317,000
Tax liability	(62,000)	837,000
Net cash provided by (used in) operating activities	(1,031,000)	2,454,000
Cash flows from investing activities:		
Purchase of property and equipment	(2,605,000)	(2,752,000)
Sale of investment securities	1,991,000	
Payments in connection with acquisition of business	(19,000)	
Net cash used in investing activities	(633,000)	(2,752,000)
Cash flows from financing activities:		
Proceeds from options and warrants exercised	13,075,000	381,000
Repayment of lease obligations	(61,000)	(80,000)
Purchase of treasury stock	(18,000)	
Net cash provided by financing activities	12,996,000	301,000
Net increase in cash and cash equivalents	11,332,000	3,000
Cash and cash equivalents - beginning of period	3,887,000	6,151,000
Cash and cash equivalents - end of period	$ 15,219,000	$ 6,154,000
Supplemental disclosures of noncash investing and financing activities:		
Acquisition of leased assets		$ 359,000
Issuance of common stock for debt		$ 645,000
Issuance of stock options in connection with employment agreement		$ 1,345,000
Issuance of common stock in connection with acquisition of business	$ 668,000	

See notes to financial statements

STEVEN MADDEN, LTD. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1998

NOTE A - BASIS OF REPORTING

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the financial position of Steven Madden, Ltd. and subsidiaries (the "Company") as of September 30, 1998, and the results of its operations, changes in stockholders' equity and cash flows for the nine and three-month periods then ended. The results of operations for the nine and three-month periods ended September 30, 1998 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, 1997 included in the Steve Madden, Ltd. Form 10-KSB.

NOTE B - INVENTORIES

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

NOTE C - NET INCOME PER SHARE OF COMMON STOCK

In 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings Per Share" ("Statement No. 128"). Statement No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share exclude any dilutive effects of options, warrants and convertible securities. Dilutive earnings per share is very similar to the previously reported fully diluted earnings per share. The Company adopted Statement No. 128 and has retroactively applied the effects thereof for all periods presented. The impact on the per share amounts previously reported was not significant.

NOTE D - PENDING LITIGATION

[1] Levenson and Siskin v. Diva Acquisition Corp., et al:

This lawsuit, brought by the former President and the former Vice President of Design of Diva Acquisition Corp., a wholly owned subsidiary of the Company, principally alleges that those individuals were fired without cause, remains in the discovery phase.

The Company continues to believe that Mr. Levenson's claims and Mr. Siskin's claims are without merit and is, accordingly, contesting those claims vigorously.

NOTE D - PENDING LITIGATION (CONTINUED)

[2] Ooga v. Steven Madden, Ltd., et al.:

On September 23, 1998, the plaintiff in this lawsuit, Ooga Associates Corp. ("Ooga"), (i) applied for a preliminary injunction to enjoin, inter alia, the Company's use of certain designs and drawings claimed to be proprietary to Ooga, and (ii) sought leave to amend its complaint to add claims against the Company's Chief Executive Officer and an architectural firm, the Tricarico Group, retained by the Company to prepare construction drawings for certain of the Company's retail stores. At a hearing held on October 22, 1998, the Court denied Ooga's application for a preliminary injunction and reserved decision on the remainder of its motion.

On October 22, 1998, the Court further indicated its intention to dismiss Ooga's claim that the Company had breached an oral agreement to use Ooga exclusively to design and build the Company's retail stores. Accordingly, upon entry of the Court's order, Ooga's claims against the Company and certain of its subsidiaries will arise solely from its allegations that the Company made false representations regarding the alleged agreement, misappropriated allegedly proprietary designs belonging to Ooga, and improperly induced Stav Efrar, now an employee of the Company, to breach fiduciary duties that he allegedly owed to Ooga. Discovery on those claims (and the claims against the other defendants) will likely commence in the coming weeks and must be concluded by April 22, 1999.

The Company believes that Ooga's remaining claims are without merit and its damages, if any, are nominal in nature. The Company intends to contest Ooga's lawsuit vigorously.

[3] Diva Acquisition Corp. v. D. Aaron, Inc., et al:

Defendants' motion to dismiss this lawsuit, as disclosed in the Company's Form 10-Q for the quarter ended June 30, 1998, was denied by the Court on September 16, 1998. Accordingly, the parties are currently engaged in discovery, and Diva continues to prosecute its claims vigorously.

Item 2.

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

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the Financial Statements and Notes thereto appearing elsewhere in this document.

Statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this document as well as statements made in press releases and oral statements that may be made by the Company or by officers, directors or employees of the Company acting on the Company's behalf that are not statements of historical or current fact constitute "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other unknown factors that could cause the actual results of the Company to be materially different from the historical results or from any future results expressed or implied by such forward-looking statements. In addition to statements which explicitly describe such risks and uncertainties, readers are urged to consider statements labeled with the terms "believes", "belief", "expects", "intends", "anticipates" or "plans" to be uncertain forward-looking statements. The forward looking statements contained herein are also subject generally to other risks and uncertainties that are described from time to time in the Company's reports and registration statements filed with the Securities and Exchange Commission.

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

PERCENTAGE OF NET REVENUES
NINE MONTHS ENDED
SEPTEMBER 30

Consolidated:	1998		1997	
Net Sales	$ 59,235,000	100%	$ 43,542,000	100%
Cost of Sales	34,593,000	58	26,208,000	60
Other Operating Income	2,535,000	4	1,601,000	4
Operating Expenses	21,004,000	35	16,159,000	37
Income from Operations	6,173,000	10	2,776,000	7
Interest Income (Expense) Net	(32,000)	0	(27,000)	0
Income Before Income Taxes	6,141,000	10	2,749,000	7
Net Income	3,534,000	6	1,638,000	4

PERCENTAGE OF NET REVENUES
NINE MONTHS ENDED
SEPTEMBER 30

By Segment	1998		1997	
WHOLESALE DIVISIONS:				
Steven Madden, Ltd.				
Net Sales	$ 37,506,000	100%	$ 29,104,000	100%
Cost of Sales	23,342,000	62	17,955,000	62
Other Operating Income	391,000	1	62,000	0
Operating Expenses	10,724,000	29	10,211,000	35
Income from Operations	3,831,000	10	1,000,000	3
Diva Acquisition Corp.				
Net Sales	$ 3,726,000	100%	$ 5,090,000	100%
Cost of Sales	3,001,000	81	3,307,000	65
Operating Expenses	995,000	27	1,821,000	36
Income (Loss) from Operations	(270,000)	(7)	(38,000)	(1)
L.E.I. Footwear:				
Net Sales	$ 722,000	100%	--	--
Cost of sales	454,000	63	--	--
Operating Expenses	250,000	35	--	--
Income from Operations	18,000	2	--	--
STEVEN MADDEN RETAIL INC.:				
Net Sales	$ 17,281,000	100%	$ 8,129,000	100%
Cost of Sales	7,796,000	45	3,815,000	47
Operating Expenses	8,043,000	47	3,285,000	40
Income from Operations	1,442,000	8	1,029,000	13
ADESSO MADDEN INC.:				
(FIRST COST)				
Net Sales	--	--	$ 1,219,000	--
Cost of Sales	--	--	1,131,000	--
Commission Revenue	--	--	1,539,000	--
Total Operating Revenue	$ 2,144,000	100%	1,627,000	100%
Operating Expenses	992,000	46	842,000	52
Income from Operations	1,152,000	54	785,000	48

PERCENTAGE OF NET REVENUES
THREE MONTHS ENDED
SEPTEMBER 30

Consolidated:	1998		1997	
Net Sales	$ 23,991,000	100%	$ 18,055,000	100%
Cost of Sales	13,908,000	58	10,192,000	57
Other Operating Income	992,000	4	748,000	4
Operating Expenses	7,872,000	33	7,108,000	39
Income from Operations	3,203,000	13	1,503,000	8
Interest Income (Expense) Net	40,000	0	(25,000)	0
Income Before Income Taxes	3,243,000	13	1,478,000	8
Net Income	1,880,000	8	881,000	5

By Segment

WHOLESALE DIVISIONS:

Steven Madden, Ltd.				
Net Sales	$ 15,204,000	100%	$ 11,515,000	100%
Cost of Sales	9,552,000	63	6,744,000	58
Other Operating Income	216,000	1	24,000	0
Operating Expenses	3,924,000	26	4,355,000	38
Income from Operations	1,944,000	13	440,000	4

Diva Acquisition Corp.				
Net Sales	$ 877,000	100%	$ 2,056,000	100%
Cost of Sales	665,000	76	1,220,000	59
Operating Expenses	317,000	36	788,000	38
Income (Loss) from Operations	(105,000)	(12)	48,000	3

L.E.I. Footwear				
Net Sales	$ 722,000	100%	--	--
Cost of Sales	454,000	63	--	--
Operating Expenses	210,000	29	--	--
Income from Operations	58,000	8	--	--

PERCENTAGE OF NET REVENUES
THREE MONTHS ENDED
SEPTEMBER 30

By Segment (Continued)

STEVEN MADDEN RETAIL INC.:	1998		1997	
Net Sales	$7,188,000	100%	$4,484,000	100%
Cost of Sales	3,237,000	45	2,228,000	50
Operating Expenses	3,119,000	43	1,663,000	37
Income from Operations	832,000	12	593,000	13
ADESSO MADDEN INC.: (FIRST COST)				
Other Operating Income	$ 776,000	100%	$ 724,000	100%
Operating Expenses	302,000	39	302,000	42
Income from Operations	474,000	61	422,000	58

RESULTS OF OPERATIONS

Nine months Ended September 30, 1998 vs. Nine Months Ended September 30, 1997

CONSOLIDATED:

Sales for the nine months ended September 30, 1998 were $59,235,000 or 36% higher than the $43,542,000 recorded in the comparable period of 1997. The increase in sales is due to several factors including additional wholesale accounts, increased reorders, EDI size replenishment, increased retail sales due to the opening of thirteen retail stores during 1997, one retail store in the first quarter of 1998, three retail stores and an outlet store in the second quarter of 1998 and four retail stores and one additional outlet store in the third quarter of 1998. As a result of additional distribution, management feels that "Steve Madden" as a brand name has increased in popularity nationwide. In turn, increased sales have enabled the Company to expand its advertising and in store concept efforts, all of which have contributed to the continuing increase in sales. Also, the Company's new LEI Wholesale Division ("LEI Wholesale") was launched in the third quarter of 1998 shipping to department stores throughout the country. LEI Wholesale generated revenue of $722,000 for the three month period ended September 30,1998.

Cost of sales as a percentage of sales decreased 2% from 60% in 1997 to 58% in 1998. Increased sales volume has allowed the Company to purchase in larger volume, resulting in a lower cost per pair. Gross profit as a percentage of sales increased 2% from 40% in 1997 to 42% in 1998.

Selling, general and administrative (SG&A) expenses increased by 30% to $21,004,000 in 1998 from $16,159,000 in 1997. The increase in SG&A is due primarily to a 55% increase in payroll, bonuses and related expenses from $5,536,000 in 1997 to $8,591,000 in 1998. Also, the increase in the number of retail outlets and expanded office facilities resulted in an increase in occupancy, telephone, utilities, computer, legal, printing/supplies and depreciation expenses by 89% from $2,633,000 in 1997 to $4,965,000 in 1998.

Income from operations for 1998 was $6,173,000 which represents an increase of $3,397,000 or 123% over the income from operations of $2,776,000 in 1997. Net income increased by 116% to $3,534,000 in 1998 from $1,638,000 in 1997.

WHOLESALE DIVISIONS:

Sales from the Steve Madden Wholesale Division ("Madden Wholesale"), accounted for $37,506,000 or 63% and $29,104,000 or 67% of total sales in 1998 and 1997, respectively. Cost of sales as a percentage of sales and gross margin as percentage of sales remains the same in Madden Wholesale. Operating expenses increased by 5%, from $10,211,000 in 1997 to $10,724,000 in 1998. This increase is due to an increase in payroll and payroll related expenses principally due to the hiring of additional management personnel and an increase in occupancy expenses due to additional warehouse space needed for expanding EDI size replenishment inventory. Madden Wholesale income from operations for the nine month period ended September 30, 1998 was $3,831,000 compared to income from operations of $1,000,000 for the nine month period ended September 30, 1997.

Sales from the Diva Acquisition Corp. Wholesale Division ("Diva Wholesale") which markets the "David Aaron" brand name in footwear accounted for $3,726,000 or 6%, and $5,090,000 or 12%, of total sales in 1998 and 1997, respectively. The Company believes that the decrease in sales is primarily due to the introduction of a new management team in the first quarter of 1998 for Diva and the implementation of certain modifications to Diva's business which the Company expects will enhance operations in the future. Cost of sales as a percentage of sales has increased from 65% in 1997 to 81% in Diva Wholesale, primarily as a result of a higher markdowns experienced in the second and third quarters of 1998. Gross profit as a percentage of sales decreased from 35% in 1997 to 19% in 1998 due to the same reason mentioned above. Operating expenses decreased by 45% from $1,821,000 in 1997 to $995,000 in 1998 due to decreases in administrative payroll, selling and designing expenses. Loss from operations from Diva was $270,000 in 1998 compared to loss from operations of $38,000 in 1997.

The Company's new LEI Wholesale Division ("LEI Wholesale") was launched shipping to department stores throughout the country in the third quarter of 1998. LEI Wholesale generated revenue of $722,000 for the three month period ended September 30, 1998. There have been substantial product reorders and the Company is committed to the business going forward.

RETAIL DIVISION:

Sales from the Retail Division accounted for $17,281,000 or 29% and $8,129,000 or 19% of total revenues in 1998 and 1997, respectively. The increase in Retail Division sales is primarily due to the Company's opening two additional retail stores in the second quarter of 1997, five in the third quarter of 1997, six in the fourth quarter of 1997, one in the first quarter of 1998, three retail stores and an outlet store in the second quarter of 1998, four retail stores and one additional outlet store in the third quarter of 1998 all of which generated aggregate sales of $8,993,000. Same store sales for the first nine months increased by 2% over the same period of 1997. This increase in same store sales is due to Company's ability to fill into best sellers by size. Gross profit as a percentage of sales has increased by 2% from 53% in 1997 to 55% in 1998. Selling, general and administrative expenses for the Retail Division increased to $8,043,000 or 47% of sales in 1998 from $3,285,000 or 40% of sales in 1997. This increase is due to increases in payroll and related expenses, occupancy, printing, computer and depreciation expenses as a result of opening thirteen additional stores in 1997, eight additional stores and two outlet stores during the nine month period ended September 30, 1998 and the addition of a retail warehouse at 43-15 38th Street, Long Island City, NY. Income from operations from the retail division was $1,442,000 in 1998 compared to income from operations of $1,029,000 in 1997.

FIRST COST DIVISION:

Adesso-Madden, Inc., a wholly owned subsidiary of the Company, generated commission revenues of $2,144,000 for the first nine months of 1998 which represents an increase of $517,000 or 32% over the commission revenues of $1,627,000 in 1997 due to having additional accounts. Operating expenses increased by 18% from $842,000 in 1997 to $992,000 in 1998 due to increases in sales commissions, payroll and payroll related expenses, and telephone expenses. Income from operations from Adesso-Madden was $1,152,000 in 1998 compared to income from operations of $785,000 in 1997.

Three months Ended September 30, 1998 vs. Three Months Ended September 30, 1997

CONSOLIDATED:

Sales for the three months ended September 30, 1998 were $23,991,000 or 33% higher than the $18,055,000 recorded in the comparable period of 1997. The increase in sales is due to several factors including additional wholesale accounts, increased reorders, EDI size replenishment, increased retail sales due to the opening of thirteen retail stores during 1997, one retail store in the first quarter of 1998, three retail stores, one outlet store in the second quarter of 1998, four retail stores and one additional outlet store in the third quarter of 1998.

As a result of additional distribution, management feels that "Steve Madden" as a brand name has increased in popularity nationwide. In turn, increased sales have enabled the Company to expand its advertising and in store concept efforts, all of which have contributed to the continuing increase in sales. Also, the Company's new LEI Wholesale Division ("LEI Wholesale") was launched in the third quarter of 1998 - shipping to department stores throughout the country. LEI Wholesale generated revenue of $722,000 for the three month period ended September 30,1998.

Cost of sales as a percentage of sales increase from 57% in 1997 to 58%, primarily as a result of markdowns experienced in the third quarter of 1998. Gross profit as a percentage of sales decreased from 43% in 1997 to 42% in 1998 due to the same reason mentioned above.

Selling, general and administrative (SG&A) expenses increased by 11% to $7,872,000 in 1998 from $7,108,000 in 1997. The increase in SG&A is due primarily to a 41% increase in payroll, bonuses and related expenses from $2,281,000 in 1997 to $3,209,000 in 1998. Also, the increase in the number of retail outlets and expanded office facilities resulted in an increase in occupancy, telephone, utilities, printing/supplies and depreciation expenses by 86% from $854,000 in 1997 to $1,585,000 in 1998.

Income from operations for 1998 was $3,203,000 which represents an increase of $1,700,000 or 113% over the income from operations of $1,503,000 in 1997. Net income increased by 113% to $1,880,000 in 1998 from $881,000 in 1997.

WHOLESALE DIVISIONS:

Sales from the Steve Madden Wholesale Division ("Madden Wholesale"), accounted for $15,204,000 or 63% and $11,515,000 or 64% of total sales in 1998 and 1997, respectively. Cost of sales as a percentage of sales increased from 58% in 1997 to 63% in 1998. Gross profit as a percentage of sales decreased from 42% in 1997 to 37% in 1998 in Madden Wholesale. Operating expenses decreased by 10%, from $4,355,000 in 1997 to $3,924,000 in 1998, primarily as a result of decrease in selling, marketing and advertising expenses. Madden Wholesale income from operations for the three month period ended September 30, 1998 was $1,944,000 compared to income from operations of $440,000 for the three month period ended September 30, 1997.

Sales from the Diva Acquisition Corp. Wholesale Division ("Diva Wholesale") which markets the "David Aaron" brand name in footwear accounted for $877,000 or 4%, and $2,056,000 or 11%, of total sales in 1998 and 1997, respectively. The Company believes that the decrease in sales is primarily due to the introduction of a new management team in the first quarter of 1998 for Diva and the implementation of certain modifications to Diva's business which the Company expects will enhance operations in the future. Cost of sales as a percentage of sales has increased from 59% in 1997 to 76% in Diva Wholesale, primarily as a result of a higher markdowns experienced in the third quarter of 1998. Gross profit as a percentage of sales decreased from 42% in 1997 to 25% in 1998 due the same reason mentioned above. Operating expenses decreased by 60% from $788,000 in 1997 to $317,000 in 1998 due to decreases in administrative payroll, selling and designing expenses. Loss from operations from Diva was $105,000 in 1998 compared to income from operations of $48,000 in 1997.

The Company's new LEI Wholesale Division ("LEI Wholesale") was launched shipping to department stores throughout the country in the third quarter of 1998. LEI Wholesale generated revenue of $722,000 for the three month period ended September 30,1988. There have been substantial product reorders and the Company is committed to the business going forward.

RETAIL DIVISION:

Sales from the Retail Division accounted for $7,188,000 or 30% and $4,484,000 or 25% of total revenues in 1998 and 1997, respectively. The increase in Retail Division sales is primarily due to the Company's opening five additional retail stores in the third quarter of 1997, six in the fourth quarter of 1997, one in the first quarter of 1998, three retail stores and an outlet store in the second quarter of 1998, four retail stores and one additional outlet store in the third quarter of 1998 all of which generated aggregate sales of $3,269,000. Same store sales for the three month period ended September 30, 1998 decreased 4% over the same period of 1997. The Company's same store sales consist of eleven stores nine of which are stores located in the Northeast. These nine stores were affected by the warmer than normal weather causing a shift in the classifications of product being sold. The business shifted from boots last year at an average price of $99 to sandals this year at an average price of $58. Sandals comprised 27% of the business this year in same store sales versus 12% last year. Gross profit as a percentage of sales has increased by 5% from 50% in 1997 to 55% in 1998. Selling, general and administrative expenses for the Retail Division increased to $3,119,000 or 43% of sales in 1998 from $1,663,000 or 37% of sales in 1997. This increase is due to increases in payroll and related expenses, occupancy, printing, computer and depreciation expenses as a result of opening thirteen additional stores in 1997, eight additional retail stores and two outlet stores during nine month period ended September 30, 1998 and the addition of a retail warehouse at 43-15 38th Street, Long Island City, NY. Income from operations from the retail division was $832,000 in 1998 compared to income from operations of $593,000 in 1997.

FIRST COST DIVISION:

Adesso-Madden, Inc., a wholly owned subsidiary of the Company, generated commission revenues of $776,000 for the three month period ended September 30, 1998 which represents an increase of $52,000 or 7% over the commission revenues of $724,000 in 1997 due to sales from having additional accounts. Operating expenses remains the same in 1998 over the same period of 1997. Income from operations from Adesso-Madden was $474,000 in 1998 compared to income from operations of $422,000 in 1997.

LIQUIDITY AND CAPITAL RESOURCES

The Company has working capital of $31,940,000 at September 30, 1998 which represents an increase of $16,795,000 in working capital from September 30,1997.

As of July 9, 1998, the Board of Directors of the Company approved the redemption of all of the Company's outstanding Class B Redeemable Common Stock Purchase Warrants (the "Class B Warrants). Warrantholders had until the close of business on August 13, 1998 to exercise their Class B warrants for the purchase of shares of Common Stock at an exercise price of $5.50 per share. If a Warrantholder failed to exercise the Class B Warrants held thereby by such date, the Company had the right to redeem them by paying $.05 for each outstanding Class B Warrant. The Company redeemed 15,310 Class B Warrants. During the nine month period ended September 30,1998, the Company received net proceeds of $10,826,000 from the exercise of Class B Warrants.

The Company's customers consist principally of department stores and specialty stores, including shoe boutiques. Presently, the Company sells approximately fifty percent (50%) of its products to department stores, including Federated Department Stores (Bloomingdales, Burdines, Macy's East, Macy's West and Rich's) May Department Stores, Dillards, Nordstorm's, Dayton Hudson and approximately fifty percent (50%) to specialty stores, including shoe stores such as Edison (Wild Pair, Bakers/Leeds) and junior clothing stores such as Urban Outfitters. Federated Department Stores presently accounts for approximately 16% of the Company's sales.

OPERATING ACTIVITIES

During the nine month period ended September 30, 1998, cash used by operating activities was $1,031,000. Uses of cash arose principally from an increase in accounts receivable factored of $5,394,000 and an increase in inventories of $878,000, a decrease in accrued bonuses of $399,000 and a decrease in other current liabilities of $318,000.

The Company has lease agreements for office, warehouse, and retail space, expiring at various times through 2009. Future obligations under these lease agreements total approximately $25,000,000.

The Company has employment agreements with various officers currently providing for aggregate annual salaries of approximately $1,327,000, subject to annual bonuses and annual increases as may be determined by the Company's Board of Directors. In addition, as part of the employment agreements, the Company is committed to pay incentive bonuses based on income before interest, depreciation and taxes to the officers.

The Company continues to increase its supply of products from foreign manufacturers, the majority of which are located in Brazil and Mexico. Although the Company has not entered into long-term manufacturing contracts with any of these foreign companies, the Company believes that a sufficient number of alternative sources exist outside of the United States for the manufacture of its products if current suppliers need to be replaced. In addition, because the Company deals with U.S. currency for all transactions and intends to continue to do so, the Company believes there should be no foreign exchange considerations.

INVESTING ACTIVITIES

During the nine month period ended September 30, 1998, the Company used cash of $2,605,000 to acquire computer equipment and make leasehold improvements on new retail stores, warehouse space and office space. The Company also sold investment securities resulting in proceeds of $1,991,000.

FINANCING ACTIVITIES

During the nine month period ended September 30, 1998, the Company received $13,075,000 from the exercise of options and warrants.

LICENSE AGREEMENTS

During the second quarter of 1997, the Company entered into three license agreements for hosiery, jewelry and ready-to-wear, bringing the total number of license agreements to six, including three license agreements entered into during the year ended December 31, 1997 for handbags, sunglasses and outerwear. The Company added its seventh license, Van Mar, Inc. for Steve Madden intimates which contract commenced on April 1, 1998 and the Company also extended its agreement with CO International to include hair accessories in Canada due to requests from customers. The Company is pleased to announce that as of third quarter Mirage Apparel Group, LTD., will now be the Company's sportswear licensee. The previous license agreement with Winer Industries was mutually ended and product will no longer be shipped by them after December 31, 1998. Also, in October 1, 1998 the Company entered into a license agreement with Daniel M. Friedman Associates, Inc., for belts. The Company is exploring additional licensing opportunities.

On April 21, 1998 the Company signed a License Agreement R.S.V. Sport, Inc., pursuant to which the Company has the right to use the l.e.i. trademark in connection with the sale of women and girls footwear. R.S.V. Sport, Inc., is a $130 million jeanswear company and is among the most popular jean brands for young women ages 12 to 20. This provides the Company with the opportunity to market shoes to a different customer base than those customers presently targeted by the Steve Madden brand. The line will be offered at lower retail prices than the Steve Madden brand.

YEAR 2000

The Company recognizes that a challenging problem exists in that many computer systems worldwide do not have the capability of recognizing the year 2000 or the years thereafter. No easy technological "quick fix" has yet been developed for this problem. The Company is expending approximately $200,000 to assure that its computer systems are reprogrammed in time to effectively deal with transactions in the year 2000 and beyond. This "year 2000 Computer Problem" creates risk for the Company from unforeseen problems in its own computer systems and from third parties with whom the Company deals. Such failures of the Company and/or third parties' computer systems could have a material adverse effect on the Company and its business in the future.

INFLATION

The Company does not believe that inflation has had a material adverse effect on sales or income during the past several years. Increases in supplies or other operating costs could adversely affect the Company's operations; however, the Company believes it could increase prices to offset increases in costs of goods sold or other operating costs.

Part II

Item 1.
Legal Proceedings

LEVENSON AND SISKIN v. DIVA ACQUISITION CORP., ET. AL.

This lawsuit, brought by the former President and the former Vice President of Design of Diva Acquisition Corp., a wholly owned subsidiary of the Company, principally alleges that those individuals were fired without cause, remains in the discovery phase.

The Company continues to believe that Mr. Levenson's claims and Mr. Siskin's claims are without merit and is, accordingly, contesting those claims vigorously.

OOGA v. STEVEN MADDEN, LTD., ET. AL.

On September 23, 1998, the plaintiff in this lawsuit, Ooga Associates Corp. ("Ooga"), (i) applied for a preliminary injunction to enjoin, inter alia, the Company's use of certain designs and drawings claimed to be proprietary to Ooga, and (ii) sought leave to amend its complaint to add claims against the Company's Chief Executive Officer and an architectural firm, the Tricarico Group, retained by the Company to prepare construction drawings for certain of the Company's retail stores. At a hearing held on October 22, 1998, the Court denied Ooga's application for a preliminary injunction and reserved decision on the remainder of its motion.

On October 22, 1998, the Court further indicated its intention to dismiss Ooga's claim that the Company had breached an oral agreement to use Ooga exclusively to design and build the Company's retail stores. Accordingly, upon entry of the Court's order, Ooga's claims against the Company and certain of its subsidiaries will arise solely from its allegations that the Company made false representations regarding the alleged agreement, misappropriated allegedly proprietary designs belonging to Ooga, and improperly induced Stav Efrat, now an employee of the Company, to breach fiduciary duties that he allegedly owed to Ooga. Discovery on those claims (and the claims against the other defendants) will likely commence in the coming weeks and must be concluded by April 22, 1999.

The Company believes that Ooga's remaining claims are without merit and its damages, if any, are nominal in nature. The Company intends to contest Ooga's lawsuit vigorously.

DIVA ACQUISITION CORP. v. D. AARON, INC., ET. AL.

Defendants motion to dismiss this lawsuit, as disclosed in the Company's Form 10-Q for the quarter ended June 30, 1998, was denied by the Court on September 16, 1998. Accordingly, the parties are currently engaged in discovery, and Diva continues to prosecute its claims vigorously.

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

As of May 1, 1998, the Company's wholly owned subsidiary, Shoe Biz, Inc., formerly known as Steven Madden Outlets, Inc., acquired certain assets and assumed certain liabilities of Daniel Scott, Inc., a footwear retailer. In exchange for the assets, the Company issued 64,520 shares of its Common Stock which shares were issued pursuant to Section 4(2) of the Securities Act of 1933. Subsequently, the Company filed with the Securities and Exchange Commission a registration statement on Form S-3 covering such shares. On July 27, 1998, the registration statement was declared effective by the Commission.

As of July 9, 1998, the Board of Directors of the Company approved the redemption of all of the Company's outstanding Class B Redeemable Common Stock Purchase Warrants (the "Class B Warrants"). A Notice of Redemption was mailed to all Class B Warrantholders to advise them under the terms of the Warrant Agreement between the Company and the American Stock Transfer and Trust Company, as warrant agent, that the Company was exercising its right to redeem and cancel all of the Company's Class B Warrants. Accordingly, warrantholders had until the close of business on August 13, 1998 to exercise their Class B Warrants for the purchase of shares of Common Stock at an exercise price of $5.50 per share. If a warrantholder failed to exercise the Class B Warrants held thereby by such date, the Company had the right to redeem them by paying $.05 for each outstanding Class B Warrant.

SIGNATURE

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

STEVEN MADDEN, LTD

/s/ ARVIND DHARIA

Arvind Dharia
Chief Financial Officer

DATE: November 10, 1998

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STEVEN MADDEN, LTD.
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