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 June 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 June 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 August 6, 1998
Common Stock	9,406,121

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

TABLE OF CONTENTS

STEVEN MADDEN, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 1998 (UNAUDITED)	December 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,297,000	$ 3,887,000
Investments		1,991,000
Accounts receivable - nonfactored (net of allowances for doubtful accounts of $438,000 at June 30, 1998 and $351,000 at December 31, 1997	1,095,000	1,127,000
Due from factor (net of allowances for doubtful accounts of $345,000 at June 30, 1998 and $335,000 at December 31, 1997)	6,669,000	4,821,000
Inventories	7,023,000	5,081,000
Prepaid advertising	295,000	441,000
Prepaid expenses and other current assets	2,104,000	1,698,000
Prepaid taxes	1,131,000	624,000
Total current assets	22,614,000	19,670,000
Property and equipment, net	6,665,000	5,931,000
Other assets:		
Prepaid advertising, less current portion	1,041,000	1,041,000
Deferred taxes	401,000	401,000
Deposits and other	184,000	258,000
Cost in excess of fair value of net assets acquired (net of accumulated amortization of $228,000 at June 30, 1998 and $170,000 at December 31, 1997)	2,536,000	1,976,000
Total other assets	4,162,000	3,676,000
	$ 33,441,000	$ 29,277,000
LIABILITIES		
Current liabilities:		
Current portion of lease payable	$ 101,000	$ 105,000
Accounts payable and accrued expenses	1,801,000	2,032,000
Accrued bonuses	169,000	593,000
Other current liabilities	228,000	395,000
Total current liabilities	2,299,000	3,125,000
Lease payable, less current portion	328,000	359,000
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock - $.0001 par value, 60,000,000 shares authorized, 8,944,850 issued and outstanding at June 30, 1998 and 8,429,073 issued and outstanding at December 31, 1997	1,000	1,000
Additional paid-in capital	25,670,000	21,721,000
Unearned compensation	(1,863,000)	(1,281,000)
Retained earnings	7,463,000	5,809,000
Treasury stock at cost (101,800 shares)	(457,000)	(457,000)
Total stockholders' equity	30,814,000	25,793,000
	$ 33,441,000	$ 29,277,000

SEE NOTES TO FINANCIAL STATEMENTS

STEVEN MADDEN, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1998	1997	1998	1997
Net sales	$ 18,733,000	$ 12,270,000	$ 35,244,000	$ 25,488,000
Cost of sales	11,200,000	7,409,000	20,685,000	16,016,000
Gross profit	7,533,000	4,861,000	14,559,000	9,472,000
Other revenue	779,000	492,000	1,543,000	854,000
Operating expenses	(6,681,000)	(4,749,000)	(13,132,000)	(9,058,000)
Income from operations	1,631,000	604,000	2,970,000	1,268,000
Interest income (expense), net	(46,000)	(1,000)	(72,000)	4,000
INCOME BEFORE PROVISION FOR INCOME TAXES	1,585,000	603,000	2,998,000	1,272,000
Provision for income taxes	704,000	246,000	1,244,000	514,000
NET INCOME	$ 881,000	$ 357,000	$ 1,654,000	$ 758,000
BASIC INCOME PER SHARE	$ 0.10	$ 0.04	$ 0.19	$ 0.10
DILUTED INCOME PER SHARE	$ 0.08	$ 0.04	$ 0.16	$ 0.09
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC INCOME PER SHARE	8,671,875	8,011,573	8,544,971	7,953,589
Effect of potential common shares	2,241,663	523,878	2,028,391	539,221
WEIGHTED AVERAGE COMMON SHARE OUTSTANDING - DILUTED INCOME PER SHARE	10,913,538	8,535,451	10,573,362	8,492,810

SEE NOTES TO FINANCIAL STATEMENTS

STEVEN MADDEN, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	SIX MONTHS ENDED JUNE 30, 1998	SIX MONTHS ENDED JUNE 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,654,000	$ 758,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Issuance of compensatory stock options	142,000	
Depreciation and amortization	628,000	364,000
Deferred compensation	74,000	72,000
Provision for bad debts	97,000	178,000
Deferred rent expense	151,000	
Changes in:		
Accounts receivable - nonfactored	(55,000)	(1,237,000)
Due from factor	(1,858,000)	426,000
Inventories	(1,768,000)	89,000
Prepaid expenses and other assets	(186,000)	151,000
Accounts payable and accrued expenses	(518,000)	287,000
Accrued bonuses	(424,000)	(267,000)
Other current liabilities	(167,000)	58,000
Tax liability	(507,000)	202,000
Net cash provided by (used in) operating activities	(2,737,000)	1,081,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,273,000)	(1,070,000)
Sale of investment securities	1,991,000	
Payments in connection with acquisition of business	(19,000)	
Net cash provided by (used in) investing activities	699,000	(1,070,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from options exercised	2,483,000	381,000
Repayment of lease obligations	(35,000)	(58,000)
Net cash provided by financing activities	2,448,000	323,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	410,000	334,000
Cash and cash equivalents - beginning of quarter	3,887,000	6,151,000
CASH AND CASH EQUIVALENTS - END OF QUARTER	$ 4,297,000	$ 6,485,000
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of leased assets		$ 359,000
Issuance of common stock for debt		$ 645,000
Issuance of common stock in connection with acquisition of business	$ 668,000	

SEE NOTES TO FINANCIAL STATEMENTS

STEVEN MADDEN, LTD. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS
JUNE 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") at June 30, 1998, and the results of its operations, changes in stockholders' equity and cash flows for the six and three-month periods then ended. The results of operations for the six and three-month periods ended June 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 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 V. DIVA, ET AL. AND SISKIN V. DIVA AND STEVEN MADDEN, LTD.:

The lawsuits commenced by Yves Levenson, the former president of Diva Acquisition Corp. ("Diva"), and by David Siskin, the former Vice President of Design of Diva, discussed in the Company's quarterly report on Form 10-Q for the quarter ended March 31, 1998, were consolidated into a single lawsuit by order of the New York State Supreme Court on or about June 24, 1998.

The Company, Diva and the Company's Chief Executive Officer filed answers to the plaintiffs' allegations on or about June 15, 1998 and the parties have commenced discovery which is scheduled to conclude by November 23, 1998.

The Company continues to believe that Mr. Levenson's claims and Mr. Siskin's claims are without merit, and will continue to contest those claims vigorously.

NOTE D - PENDING LITIGATION (CONTINUED)

[2] OOGA V. STEVEN MADDEN, LTD., ET AL.:

On or about June 30, 1998, the settlement negotiations relating to the lawsuit commenced by Ooga Associates Corp. ("Ooga"), discussed in the Company's quarterly report on Form 10-Q for the quarter ended March 31, 1998, were terminated. Accordingly, on July 6, 1998, the Company and certain wholly-owned subsidiaries also named as defendants in the action, filed a motion to dismiss four of the claims asserted in Ooga's complaint. The sole additional defendant in the action, Stav Efrat, who is currently an employee of the Company, filed an answer to Ooga's compliant and also filed a third-party complaint, asserting claims against Ooga's principal, on or about June 5, 1998.

The Company believes that Ooga's claims are without merit and intends to contest them vigorously.

[3] DIVA V. D. AARON:

The Compliant filed by Diva in United States District Court for the Southern District of New York and asserting federal trademark claims and additional state law claims against D. Aaron, Inc. and six other defendants, discussed in the Company's quarterly report on Form 10-Q for the quarter ended March 31, 1998, was served on all of the defendants during May and June 1998. On July 15, 1998, those defendants, including Yves Levenson and David Siskin, filed a motion to dismiss Diva's complaint. Diva has contested that motion, which will be fully submitted to the Court as of August 21, 1998.

Diva intends to prosecute its claims in this action vigorously.

These actions are in the preliminary stages. Therefore, the financial statements do not include any provision with respect to these actions.

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 SIX MONTHS ENDED JUNE 30			
CONSOLIDATED:	1998		1997	
Net Sales	$35,244,000	100%	$25,488,000	100%
Cost of Sales	20,685,000	59	16,016,000	63
Other Operating Income	1,543,000	4	854,000	3
Operating Expenses	13,132,000	37	9,058,000	36
Income from Operations	2,970,000	8	1,268,000	5
Interest Income (Expense) Net	(72,000)	0	4,000	0
Income Before Income Taxes	2,898,000	8	1,272,000	5
Net Income	1,654,000	5	758,000	3

By Segment	PERCENTAGE OF NET REVENUES SIX MONTHS ENDED JUNE 30 1998		1997	
WHOLESALE DIVISIONS:				
STEVEN MADDEN, LTD.				
Net Sales	$22,302,000	100%	$17,588,000	100%
Cost of Sales	13,790,000	62	11,211,000	64
Other Operating Income	175,000	1	39,000	0
Operating Expenses	6,840,000	31	5,856,000	33
Income from Operations	1,847,000	8	560,000	3
DIVA ACQUISITION CORP.				
Net Sales	$2,849,000	100%	$3,034,000	100%
Cost of Sales	2,336,000	82	2,087,000	69
Operating Expenses	678,000	24	1,034,000	34
Income (Loss) from Operations	(165,000)	(6)	(87,000)	(3)
STEVEN MADDEN RETAIL INC.:				
Net Sales	$10,093,00	100%	$3,645,000	100%
Cost of Sales	4,559,000	45	1,587,000	44
Operating Expenses	4,924,000	49	1,629,00	45
Income from Operations	610,000	6	429,000	12
ADESSO MADDEN INC.: (FIRST COST)				
Net Sales	---	---	$1,221,000	---
Cost of Sales	---	---	1,131,000	---
Commission Revenue	$1,368,000	---	815,000	---
Total Operating Revenue	1,368,000	100%	905,000	100%
Operating Expenses	690,000	50	539,000	60
Income from Operations	678,000	50	366,000	40

	PERCENTAGE OF NET REVENUES THREE MONTHS ENDED JUNE 30			
CONSOLIDATED:	1998		1997	
Net Sales	$18,733,000	100%	$12,270,000	100%
Cost of Sales	11,200,000	60	7,409,000	60
Other Operating Income	779,000	4	492,000	4
Operating Expenses	6,681,000	36	4,749,000	39
Income from Operations	1,631,000	9	604,000	5
Interest Income (Expense) Net	(46,000)	0	(1,000)	0
Income Before Income Taxes	1,585,000	8	603,000	5
Net Income	881,000	5	357,000	3
By Segment				
WHOLESALE DIVISIONS:				
STEVEN MADDEN, LTD.				
Net Sales	$12,003,000	100%	$8,177,000	100%
Cost of Sales	7,615,000	63	5,156,000	63
Other Operating Income	94,000	1	24,000	0
Operating Expenses	3,254,000	27	2,965,000	36
Income from Operations	1,228,000	10	80,000	1
DIVA ACQUISITION CORP.				
Net Sales	$920,000	100%	$1,842,000	100%
Cost of Sales	911,000	99	1,274,000	69
Operating Expenses	313,000	34	572,000	31
Income (Loss) from Operations	(304,000)	(33)	(4,000)	0
STEVEN MADDEN RETAIL INC.:				
Net Sales	$5,810,000	100%	$2,091,000	100%
Cost of Sales	2,674,000	46	830,000	40
Operating Expenses	2,741,000	47	935,000	45
Income from Operations	395,000	7	326,000	16

	PERCENTAGE OF NET REVENUES THREE MONTHS ENDED JUNE 30			
By Segment (Continued)				
ADESSO MADDEN INC.: (FIRST COST)	1998		1997	
Net Sales	---	---	$160,000	---
Cost of Sales	---	---	149,000	---
Commission Revenue	$685,000	---	468,000	---
Total Operating Revenue	685,000	100%	479,000	100%
Operating Expenses	373,000	54	277,000	58
Income from Operations	312,000	46	202,000	42

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 1998 VS. SIX MONTHS ENDED JUNE 30, 1997

CONSOLIDATED:

Sales for the six months ended June 30, 1998 were $35,244,000 or 38% higher than the $25,488,000 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. 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.

Cost of sales as a percentage of sales decreased 4% from 63% in 1997 to 59% in 1998. Increased sales volume has allowed the Company to purchase in larger volume, resulting in a lower cost per pair. Also, the purchase of a higher percentage of shoes from overseas suppliers, resulted in a lower cost per pair as compared to 1997. Gross profit as a percentage of sales increased 4% from 37% in 1997 to 41% in 1998.

Selling, general and administrative (SG&A) expenses increased by 45% to $13,132,000 in 1998 from $9,058,000 in 1997. The increase in the first six months of 1998 reflects the costs incurred in implementing the Company's strategic plan to strengthen its management team and infrastructure, thereby laying the foundation for future growth. The increase in SG&A is due primarily to a 65% increase in payroll, bonuses and related expenses from $3,255,000 in 1997 to $5,382,000 in 1998. Additionally, the Company focused its efforts on marketing and advertising thus increasing those expenses by 58% from $678,000 in 1997 to $1,073,000 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 114% from $1,459,000 in 1997 to $3,125,000 in 1998.

Income from operations for 1998 was $2,970,000 which represents an increase of $1,702,000 or 134% over the income from operations of $1,268,000 in 1997. Net income increased by 118% to $1,654,000 in 1998 from $758,000 in 1997.

WHOLESALE DIVISIONS:

Sales from the Steve Madden Wholesale Division ("Madden Wholesale"), accounted for $22,302,000 or 63% and $17,588,000 or 69% of total sales in 1998 and 1997, respectively. Cost of sales as a percentage of sales has decreased by 2% from 64% in 1997 to 62% in 1998 in Madden Wholesale. Gross profit as a percentage of sales increased 2% from 36% in 1997 to 38% in 1998. Operating expenses increased by 17%, from $5,856,000 in 1997 to $6,840,000 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. Operating expenses have also increased due to the development of a new line of sneakers and the hiring of additional personnel to facilitate future growth of footwear classifications/extensions. Wholesale income from operations for the six month period ended June 30, 1998 was $1,847,000 compared to income from operations of $560,000 for the six month period ended June 30, 1997.

Sales from the Diva Acquisition Corp. Wholesale Division ("Diva Wholesale") which markets the "David Aaron" brand name in footwear accounted for $2,849,000 or 8%, and $3,034,000 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 by 13% from 69% in 1997 to 82% in Diva Wholesale, primarily as a result of a higher markdowns experienced in the second quarter of 1998. Gross profit as a percentage of sales decreased from 31% in 1997 to 18% in 1998 due to the same reason mentioned above. Operating expenses decreased by 34% from $1,034,000 in 1997 to $678,000 in 1998 due to decreases in administrative payroll, selling and designing expenses. Loss from operations from Diva was $165,000 in 1998 compared to a loss of $87,000 in 1997.

RETAIL DIVISION:

Sales from the Retail Division accounted for $10,093,000 or 29% and $3,645,000 or 14% of total revenues in 1998 and 1997, respectively. The comparable stores sales for the first six months increased 9% over the same period of 1997. The increase in Retail Division sales is primarily due to the Company's opening of retail stores in Queens Center Mall in Elmhurst, NY and Lenox Square Mall in Atlanta, GA, in the second quarter of 1997, Willowbrook Mall in Wayne, NJ; Cherry Hill Mall in Cherry Hill, NJ; Staten Island Mall in Staten Island, NY; Glendale Galeria in Glendale, CA and Montgomery Mall in Bethesda MD, in the third quarter of 1997, Southshore Plaza in Braintree, MA; David Aaron in New York, NY; Smithhaven Mall in Lakegrove, NY; Coconut Grove Mall in Coconut Grove, FL; Broward Mall in Plantation, FL; Valleyfair Shopping Center in Santa Clara, CA, in the fourth quarter of 1997, Aventura Mall in Aventura, FL, in the first quarter of 1998, Brea Mall in Brea, CA; Westside Pavilon in Los Angeles, CA; South Coast Plaza Mall in Costa Mesa, CA and the Company also opened an outlet store in Mineola, NY all of which generated aggregate sales of $6,116,000. Gross profit as a percentage of sales has decreased by 1% from 56% in 1997 to 55% in 1998. Selling, general and administrative expenses for the Retail Division increased to $4,924,000 or 49% of sales in 1998 from $1,629,000 or 45% 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, one additional store in first quarter of 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 $610,000 in 1998 compared to income from operations of $429,000 in 1997.

OTHER:

Adesso-Madden, a wholly owned subsidiary of the Company, generated commission revenues of $1,368,000 for the first six months of 1998 which represents an increase of $463,000 or 51% over the commission revenues of $905,000 in 1997 due to additional accounts. Operating expenses increased by 28% from $539,000 in 1997 to $690,000 in 1998 due to increases in selling and commission, payroll and payroll related expenses, and telephone expenses. Income from operations from Adesso-Madden was $678,000 in 1998 compared to an income of $366,000 in 1997.

THREE MONTHS ENDED JUNE 30, 1998 VS. THREE MONTHS ENDED JUNE 30, 1997

CONSOLIDATED:

Sales for the three months ended June 30, 1998 were $18,733,000 or 53% higher than the $12,270,000 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. 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. Cost of sales and Gross profit approximately remains the same as a percentage of sales, primarily as a result of higher markdowns experienced in the second quarter of 1998.

Selling, general and administrative (SG&A) expenses increased by 41% to $6,681,000 in 1998 from $4,749,000 in 1997. The increase in the second quarter of 1998 reflects the costs incurred in implementing the Company's strategic plan to strengthen its management team and infrastructure, thereby laying the foundation for future growth. The increase in SG&A is due primarily to a 66% increase in payroll, bonuses and related expenses from $1,747,000 in 1997 to $2,907,000 in 1998. Also, the increase in the number of retail outlets and expanded office facilities resulted in an increase in occupancy, telephone, utilities, legal, stock related, printing/supplies and depreciation expenses by 115% from $843,000 in 1997 to $1,813,000 in 1998.

Income from operations for 1998 was $1,631,000 which represents an increase of $1,027,000 or 170% over the income from operations of $604,000 in 1997. Net income increased by 147% to $881,000 in 1998 from $357,000 in 1997.

WHOLESALE DIVISIONS:

Sales from the Steve Madden Wholesale Division ("Madden Wholesale"), accounted for $12,003,000 or 64% and $8,177,000 or 67% of total sales in 1998 and 1997, respectively. Cost of sales and gross profit remains the same as a percentage of sales in 1998 over same period of 1997 in Madden Wholesale. Operating expenses increased by 10%, from $2,965,000 in 1997 to $3,254,000 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. Operating expenses have also increased due to the development of a new line of sneakers and the hiring of additional personnel to facilitate future growth of footwear classifications/extensions. Wholesale income from operations for the three month period ended June 30, 1998 was $1,228,000 compared to income from operations of $80,000 for the three month period ended June 30, 1997.

Sales from the Diva Acquisition Corp. Wholesale Division ("Diva Wholesale") which markets the "David Aaron" brand name in footwear accounted for $920,000 or 5%, and $1,842,000 or 15%, 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 by 30% from 69% in 1997 to 99% in Diva Wholesale, primarily as a result of a higher markdowns experienced in second quarter. Gross profit as a percentage of sales decreased from 31% in 1997 to 1% in 1998 due the same reason mentioned above. Operating expenses decreased by 45% from $572,000 in 1997 to $313,000 in 1998 due to decreases in administrative payroll, selling and designing expenses. Loss from operations from Diva was $304,000 in 1998 compared to a loss of $4,000 in 1997.

RETAIL DIVISION:

Sales from the Retail Division accounted for $5,810,000 or 31% and $2,091,000 or 17% of total revenues in 1998 and 1997, respectively. The comparable stores sales for the three month period ended June 30, 1998 increased 15% over the same period of 1997. The increase in Retail Division sales is primarily due to the Company's opening of retail stores in Queens Center Mall in Elmhurst, NY and Lenox Square Mall in Atlanta, GA, in the second quarter of 1997, Willowbrook Mall in Wayne, NJ; Cherry Hill Mall in Cherry Hill, NJ; Staten Island Mall in Staten Island, NY; Glendale Galeria in Glendale, CA and Montgomery Mall in Bethesda MD, in the third quarter of 1997, Southshore Plaza in Braintree, MA; David Aaron in New York, NY; Smithhaven Mall in Lakegrove, NY; Coconut Grove Mall in Coconut Grove, FL; Broward Mall in Plantation, FL; Valleyfair Shopping Center in Santa Clara, CA, in the fourth quarter of 1997, Aventura Mall in Aventura, FL, in the first quarter of 1998, Brea Mall in Brea, CA; Westside Pavilon in Los Angeles, CA; South Coast Plaza Mall in Costa Mesa, CA and the Company also opened an outlet store in Mineola, NY all of which generated aggregate sales of $3,413,000. Gross profit as a percentage of sales has decreased by 6% from 60% in 1997 to 54% in 1998. Selling, general and administrative expenses for the Retail Division increased to $2,741,000 or 47% of sales in 1998 from $935,000 or 45% 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, one additional store in first quarter of 1998, three additional stores and one an outlet store in second quarter of 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 $395,000 in 1998 compared to income from operations of $326,000 in 1997.

OTHER:

Adesso-Madden, a wholly owned subsidiary of the Company, generated commission revenues of $685,000 for the three month period ended June 30, 1998 which represents an increase of $206,000 or 43% over the commission revenues of $479,000 in 1997 due to sales from additional accounts. Operating expenses increased by 35% from $277,000 in 1997 to $373,000 in 1998 due to increases in selling and commission, payroll and payroll related expenses, and telephone expenses. Income from operations from Adesso-Madden was $312,000 in 1998 compared to an income of $202,000 in 1997.

LIQUIDITY AND CAPITAL RESOURCES

The Company has working capital of $20,315,000 at June 30, 1998 which represents an increase of $5,356,000 in working capital from June 30, 1997.

In November 1997, Steven Madden, Ltd., engaged Hambrecht & Quist, LLC as its exclusive placement agent in connection with a potential private placement of its securities. A private placement of the Company's securities was not consummated and, in May 1998, the Company terminated the engagement of Hambercht & Quist.

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 have 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. Should a warrantholder fail to exercise the Class B Warrants held thereby by such date, the Company will redeem them on August 14, 1998 by paying $.05 for each outstanding Class B Warrant. If all of the Class B Warrants are exercised, the Company anticipates receiving a total of approximately $10,000,000. During July 1998 the Company received approximately $1,805,000 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 six month period ended June 30, 1998, cash used by operating activities was $2,737,000. Uses of cash arose principally from an increase in accounts receivable factored of $1,858,000, an increase in inventories of $1,768,000, an increase in prepaid expenses and other assets of $186,000, a decrease in accounts payable and accrued expenses of $518,000, a decrease in accrued bonuses of $424,000 and an increase in prepaid taxes of $507,000.

The Company has lease agreements for office, warehouse, and retail space, expiring at various times through 2009. Future obligations under these lease agreements total $20,324,000.

The Company has employment agreements with various officers currently providing for aggregate annual salaries of approximately $1,145,000, 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 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 six month period ended June 30, 1998, the Company used cash of $1,273,000 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 six month period ended June 30, 1998, the Company received $2,483,000 from the exercise of options and warrants. In addition, during July 1998 the Company received approximately $1,805,000 from the exercise of Class B 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 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 exits 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 v. DIVA, et. al.
SISKIN v. DIVA and STEVEN MADDEN, LTD.

The lawsuits commenced by Yves Levenson, the former president of Diva Acquisition Corp. ("Diva"), and by David Siskin, the former Vice President of Design, discussed in the Company's quarterly report on Form 10-Q for the quarter ended March 31, 1998, were consolidated into a single lawsuit by order of the New York State Supreme Court on or about June 24, 1998.

The Company, Diva and the Company's Chief Executive Officer filed answers to the plaintiffs' allegations on or about June 15, 1998 and the parties have commenced discovery, which is scheduled to conclude by November 23, 1998.

The Company continues to believe that Mr. Levenson's claims and Mr. Siskin's claims are without merit, and will continue to contest those claims vigorously.

OOGA v. STEVEN MADDEN, LTD., et. al.

On or about June 30, 1998, the settlement negotiations relating to the lawsuit commenced by Ooga Associates Corp. ("Ooga"), discussed in the Company's quarterly report on Form 10-Q for the quarter ended March 31, 1998, were terminated. Accordingly, on July 06, 1998, the Company and certain wholly-owned subsidiaries also named as defendants in the action, filed a motion to dismiss four of the claims asserted in Ooga's complaint. The sole additional defendant in the action, Stav Efrat, who is currently an employee of the Company, filed an answer to Ooga's complaint and also filed a third-party complaint, asserting claims against Ooga's principal, on or about June 05, 1998.

The Company believes that Ooga's claims are without merit and intends to contest them vigorously.

DIVA v.d. AARON

The Complaint filed by Diva in United States District Court for the Southern District of New York and asserting federal trademark claims and additional state law claims against D. Aaron, Inc. and six other defendants, discussed in the Company's quarterly report on Form 10-Q for the quarter ended March 31, 1998, was served on all of the defendants during May and June, 1998. On July 15, 1998, those defendants, including Yves Levenson and David Siskin, filed a motion to dismiss Diva's complaint. Diva has contested that motion, which will be fully submitted to the Court as of August 21, 1998.

Diva intends to prosecute its claims in this action 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, the Company was exercising its right to redeem and cancel all of the Company's Class B Warrants. Accordingly, warrantholders have 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. Should a warrantholder fail to exercise the Class B Warrants held thereby by such date, the Company will redeem them on August 14, 1998 by paying $.05 for each outstanding Class B Warrant.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

On May 22, 1998, the Company held its Annual Meeting of Stockholders where the stockholders of the Company approved the following proposals.

(a) ELECTION OF DIRECTORS. The following Directors were reelected for a term of one (1) year to the Board of Directors of the Company: (i) Rhonda Brown (8,312,614 votes for, 87,900 withheld),; (ii) Steven Madden (8,312,614 votes for, 87,900 vote withheld); Arvind Dharia (8,312,614 votes for, 87,900 votes withheld); (iv) John Basile (8,312,614 votes for, 87,900 votes withheld); (v) John L. Madden (8,312,314 votes for, 88,200 votes withheld), (vi) Peter Migliorini (8,312,314 votes for, 88,200 votes withheld); and (vii) Les Wagner (8,312,314 votes for, 88,200 votes withheld).

(b) 1998 STOCK PLAN. The Company's 1998 Stock Plan covering 1,000,000 shares of Common Stock was approved by the stockholders of the Company (5,019,729 votes for, 908,440 votes against, 59,100 votes withheld). As of August 6, 1998, 300,000 options have been issued by the Company under the 1998 Stock Plan.

(c) REINCORPORATION IN THE STATE OF DELAWARE. In order to effect a reincorporation of the Company in the State of Delaware, a merger of the Company with and into a wholly-owned Delaware subsidiary was approved by the stockholders of the Company (5,838,060 votes for, 121,209 votes against, and 29,500 votes withheld).

(d) APPOINTMENT OF AUDITORS. The appointment of Richard A. Eisner & Company, LLP, as independent auditors of the Company, for fiscal year 1998 was approved by the stockholders of the Company (7,603,549 votes for, 777,390 votes against, and 19,575 votes withheld).

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: August 11, 1998

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