SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

REPORT ON FORM 10-KSB

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997.

COMMISSION FILE NO. 0-23702

STEVEN MADDEN, LTD.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

NEW YORK	13-3588231
(STATE OF OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(IRS EMPLOYER IDENTIFICATION NO.)

52-16 BARNETT AVENUE LONG ISLAND CITY, NEW YORK	11104
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICE)	(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (718) 446-1800

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE.

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

COMMON STOCK, PAR VALUE $.0001 PER SHARE

(TITLE OF CLASS)

CLASS B REDEEMABLE COMMON STOCK PURCHASE WARRANT

(TITLE OF CLASS)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 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 [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of the Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

Issuer's revenues for the twelve month period ended December 31, 1997 were $59,311,000.

The aggregate market value of the voting stock held by non- affiliates of the Registrant, computed by reference to the closing price of such stock as of March 16, 1998 was approximately $67,853,268.

Number of shares outstanding of the issuers common stock, as of March 16, 1998, was 8,571,073 shares.

DOCUMENTS INCORPORATED BY REFERENCE:

PART III INCORPORATES CERTAIN INFORMATION BY REFERENCE FROM THE REGISTRANT'S DEFINITIVE PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS SCHEDULED FOR MAY 22, 1998.

PART I

ITEM 1. BUSINESS.

Steven Madden, Ltd. (the "Company") designs contemporary footwear under the Steve Madden(R) and David Aaron(R) brands for women ages 16 to 45 years. The Company's branded products are designed to appeal to style-conscious consumers in the junior and bridge market segments. The Company sells its products through its seventeen (17) Steve Madden(R) retail stores, one (1) David Aaron(R) store and more than two thousand two hundred (2,200) department and specialty store locations in the United States, Canada, Australia and Venezuela. The Company's product line includes core products, which are sold year-round, complemented by a broad range of updated styles, which are designed to establish or capitalize on market trends. The Company's business is comprised of four (4) distinct segments: a wholesale division; a retail subsidiary; a private label subsidiary

and the David Aaron(R) subsidiary. In 1997, the Company commenced an aggressive licensing program and entered into six (6) licensing agreements for sportswear and jeanswear, outerwear, handbags, sunglasses, hosiery and jewelry. The Company was founded and developed by Steven Madden, its principal designer and Chief Executive Officer, President and Chairman of the Board, who has established a reputation for his creative designs, popular styles and quality products at accessible price points. Mr. Madden has over twenty (20) years of experience in the footwear industry and is responsible for the Company's overall fashion direction.

Steven Madden, Ltd., was incorporated as a New York corporation on July 9, 1990. The Company commenced operations in August, 1990 and introduced its first styles of women's footwear and began shipping its products in the Fall of 1990. The Company completed its initial public offering in December 1993 and its securities traded on The Nasdaq SmallCap Market until December 1996. Commencing in January 1997, the Company's shares of Common Stock and Class B Warrants trade on The Nasdaq National Market under the symbols "SHOO" and "SHOOZ" respectively.

The Company maintains its principal executive offices and a wholesale warehouse facility at 52-16 Barnett Avenue, Long Island City, NY 11104, telephone number (718) 446-1800, a showroom at 1370 Avenue of the Americas, New York, NY 10019, a wholesale warehouse at 3400 McIntosh Rd., Ft. Lauderdale, FL 33316 and a retail warehouse at 43-15 38th Street, Long Island City, New York 11104.

STEVEN MADDEN, LTD. - WHOLESALE DIVISION

The wholesale division sells and markets the Company's Steve Madden(R) brand to major department stores, better specialty stores, and shoe stores throughout the country and in Australia, Canada and Venezuela. During the last few years the Steve Madden(R) product line has

become a leading footwear brand in the fashion conscious junior marketplace. To serve its customers (women primarily ages 16 to 25), the Company creates and markets fashion forward footwear designed to appeal to customers seeking exciting, new footwear designs at reasonable prices. In 1997, the wholesale division expanded its product mix to include sales of athletic footwear and evening shoes.

As the Company's largest division, the Steve Madden(R) wholesale division accounted for $38,487,000 in sales in 1997, or approximately 65% of the Company's total sales. Many of the wholesale division's newly created styles are test marketed at the Company's retail stores. Within a few days, the Company can determine if a test product appeals to customers. This enables the Company to use its flexible manufacturing model to rapidly respond to changing preferences which is essential for success in the junior marketplace.

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

On April 1, 1996, the Company acquired Diva International, Inc., a New York corporation ("Diva"). The Company acquired all of the outstanding capital stock of Diva for a total purchase price of approximately $1,885,000 in cash and stock. In connection with the Diva transaction, the Company entered into employment agreements with four (4) key employees of Diva, none of whom are currently employed by the Company.

Diva designs and markets fashion footwear to women under the "David Aaron(R)" name through one (1) Company owned retail shoe store located in the Soho area of Manhattan, major department stores and better footwear specialty stores. Diva's products are designed to appeal principally to fashion conscious women, ages 26 to 45, who shop at department stores and footwear boutiques, priced a tier above the Steve Madden(R) brand. The Company recorded sales from the David Aaron(R) brand of $6,447,000 for the year ended December 31, 1997, or 11% of the Company' total sales.

STEVEN MADDEN RETAIL, INC. - RETAIL DIVISION

The Company currently operates seventeen (17) retail shoe stores under the Steve Madden(R) name and one (1) under the David Aaron(R) name. Three (3) stores are located in Manhattan (in Soho and the Upper Eastside), fourteen (14) stores are located in major shopping malls in California, Florida, Georgia, Maryland, Massachusetts, New Jersey and New York and one (1) store is located in a highly traveled urban street location in Coconut Grove, Florida. Each of the Steve Madden(R) stores has been designed to appeal to young fashion conscious women by creating a "nightclub" type atmosphere. The retail stores have been very successful for the Company, generating in excess of $700 per square foot. Sales are primarily from the sale of the Company's Steve Madden(R)

product line. Same store sales increased 17% in 1997 over 1996 sales and total sales for the retail division were $13,249,000 compared to $3,805,000 for 1996.

The Company believes that the Retail Division will continue to enhance overall sales and profits while building equity in the brand. It is for these reasons that the Company has embarked upon an aggressive expansion plan and intends to add approximately nine (9) new retail stores during the remainder of 1998. Additionally, the expansion of the Retail Division enables the Company to test and react to new products and classifications which strengthen the Steve Madden wholesale division.

THE ADESSO-MADDEN, INC. - PRIVATE LABEL DIVISION

In September 1995, the Company incorporated Adesso-Madden, Inc. as a wholly owned subsidiary ("A-M"). A-M was formed to serve as a buying agent to mass market merchandisers, shoe store chains and other off-price retailers with respect to their purchase of private label shoes. As a buying agent, A-M arranges with shoe manufacturers in Asia and South America for them to manufacture private label shoes to the specifications of their clients. As a result of the manner in which A-M has operated its business since April 1, 1997, A-M receives commissions in connection with the purchase of private label shoes by its clients. In 1997, the Private Label Division generated sales revenue of $1,128,000 for the year ended December 31, 1997 and commission revenue of $2,192,000 for the year ended December 31, 1997. See "Management's Discussion and Analysis."

PRODUCTS AND LICENSING

The Company's products emphasize youthful styling and contemporary design and are marketed at moderate to bridge price points. The Company's primary products include Steve Madden(R) and David Aaron(R) branded shoes. The Company also has a private label shoe operation, Adesso-Madden, Inc., and has also entered into strategic licensing agreements for additional Steve Madden(R) branded products. The following paragraphs describe the Company's products.

STEVE MADDEN(R)

Steve Madden(R) branded products are designed to appeal to style conscious consumers in the junior market (ages 16 to 25 years). The Steve Madden(R) line emphasizes up-to-date fashion and includes a wide range of women's footwear including boots, clogs, sneakers, evening shoes, and sandals. Steve Madden(R) brand shoes sell at retail price points generally ranging from $48 to $70 for shoes and up to $99 for boots.

In order to reduce the impact of changes in fashion trends on the Steve Madden(R) brand product sales, the Company designs and classifies its product line into three categories: CORE, CORE-PLUS, and FASHION. The Company's CORE line is available year round and consists of

classic products which have proven to be consistent sellers over several seasons. The CORE line currently includes twelve (12) style/color combinations which can be reordered by size and shipped to retailers within one to two weeks, allowing for the rapid replenishment of the most popular Steve Madden(R) styles. The Company's CORE-PLUS line consists of basic styles whose patterns and colors are updated each season to keep pace with changing trends. Finally, the Company's FASHION line consists of styles that are designed close to or in season and capitalize on the Company's ability to design, test, manufacture and market products quickly. CORE and CORE-PLUS products account for a majority of Steve Madden(R) brand sales.

DAVID AARON(R)

The Company acquired the David Aaron(R) brand in 1996, and currently markets David Aaron(R) products through its Diva division. David Aaron(R) branded products are designed to appeal to more sophisticated, career and fashion oriented consumers (ages 26 to 45 years) in the bridge market segment. David Aaron(R) products are priced at a tier above the Steve Madden(R) brand and have retail price points generally ranging from $70 to $100 for shoes and up to $150 for boots. Similar to the Steve Madden(R) line, the Company's David Aaron(R) line is organized into CORE, CORE-PLUS, and FASHION categories with CORE and CORE-PLUS products accounting for a large majority of David Aaron(R) brand sales.

ADESSO-MADDEN, INC.

Adesso-Madden, Inc., a private label division, acts primarily as a buying agent for mass merchandising and off-price retailers. The Company believes that its entry into the private label, mass merchandising market enables it to maximize additional non-branded sales opportunities and provides for more competitive sourcing thereby leveraging the Company's overall sourcing, design and manufacturing capabilities. Currently, this division manufactures women's footwear for large retailers including J.C. Penney, Sears, Mervyn's, and Target.

LICENSING

The Company believes that strategic licensing will enhance the Steve Madden brand(R), increase brand equity and leverage customer loyalty. During 1997, the Company began to license the Steve Madden(R) brand selectively while attempting to maintain strict design, merchandising and marketing control over its licensees. To date, the Company has entered into agreements for sportswear and jeans, eyewear, handbags, hosiery, jewelry, and outerwear. Each licensee requires that licensees pay to the Company a royalty based on net sales and a minimum royalty in the event that net sales fail to reach specified targets. During 1998, the Company may continue to pursue additional licensees in new product categories as well as to seek expansion into certain markets outside the United States.

DESIGN

Steve Madden, the principal designer of the Company, has established a reputation for his creative designs, popular styles and quality products at accessible price points. Mr. Madden has

been involved in the footwear industry for over twenty (20) years and is responsible for the Company's overall fashion direction, maintaining direct, day-to-day responsibility for the design and marketing of the Company's products.

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

MANUFACTURING

The Company sources each of its product lines separately based on the individual design, styling and quality specifications of such products. The Company does not own or operate any mass manufacturing facilities and sources its branded products directly or indirectly through independently owned manufacturers in Mexico (50%), China (10%), Brazil (10%), Spain (6%), Italy (4%) and the United States (20%). The Company has established relationships with a number of manufacturers in each country. The Company believes that this sourcing of footwear products minimizes its investment and inventory risk, and enables efficient and timely introduction of new product designs. Although the Company has not entered into any long-term manufacturing or supply contracts, the Company believes that a sufficient number of alternative sources exist for the manufacture of its products. The principal materials used in the Company's footwear are available from any number of sources, both within the United States and in foreign countries.

The Company's design and distribution processes are intended to be flexible, allowing the Company to respond to and accommodate changing consumer demand. The Company's production staff tracks warehouse inventory on a daily basis, monitors sell through data and incorporates input on product demand from wholesale customers. The Company can use product feedback to adjust production or manufacture new products in as little as five weeks. Constant inventory tracking allows the Company to manage inventory on a "continuous flow" basis with the goal of optimizing inventory turns. More specifically, all inventory is classified into three categories: CORE products, which are sold year round, CORE-PLUS products which are in-season styles that are experiencing unusually strong sell through, and FASHION products. The Company

strives to only have reorder inventory in selected CORE and CORE-PLUS products that are proven best-sellers.

In 1997, the Company began to leverage this inventory control capability even further by offering electronic data interchange ("EDI") quick replenishment to its top department store accounts. The Company plans to expand this program to more wholesale accounts in 1998. The Company believes that its flexible product introduction schedule and perpetual inventory control system are competitive edges in an industry that is subject to high fashion risks.

CUSTOMERS

The Company's customers purchasing shoes 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 and Rich's), May Department Stores (Hecht's, Filene's and Robinsons May), Dillard's, Dayton-Hudson and Nordstrom and approximately fifty percent (50%) to specialty stores, including shoe stores such as Edison Brothers (Wild Pair, Bakers and Leeds) and juniors ready-to-wear stores such as Urban Outfitters. Federated Department Stores presently accounts for approximately sixteen (16%) of the Company's sales.

DISTRIBUTION CHANNELS

The Company sells it products principally through its eighteen (18) Company-owned retail stores, better department stores and specialty shoe stores in the United States and abroad. Retail stores and wholesale sales account for approximately twenty-two percent (22%) and seventy six percent (76%) of total sales, respectively. The following paragraphs describe each of these distribution channels.

RETAIL STORES

The Company currently operates seventeen (17) Company-owned retail stores under the Steve Madden(R) name and one (1) under the David Aaron(R) name. The Company believes that its retail stores will continue to enhance overall sales, profitability, and its ability to react to changing consumer trends. The design, format and environment of the Steve Madden(R) retail stores resemble a "nightclub" type atmosphere which has become a popular destination and gathering place for young women. The David Aaron(R) store has a more sophisticated design and format styled to appeal to its more mature target audience. These stores are a powerful marketing tool which allow the Company to strengthen brand recognition and to showcase certain of its full line of branded and licensed products. Furthermore, the retail stores provide the Company with a venue to test and introduce new products and merchandising strategies. Specifically, the Company often tests new designs at its Steve Madden(R) retail stores before scheduling them for mass production and wholesale distribution. In addition to these test marketing benefits, the Company has been

able to leverage sales information gathered at Steve Madden(R) retail stores to assist its wholesale accounts in order placement and inventory management.

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

The Company currently sells to over 1,200 doors in twenty five (25) better department stores throughout the United States and Canada. The Company's top accounts include Federated Department Stores (Bloomingdale's, Burdine's, Macy's and Rich's), May Department Stores (Hecht's, Filene's and Robinsons May), Dillard's, Dayton-Hudson and Nordstrom.

The Company offers its department store accounts extensive merchandising support which includes in-store fixtures and signage, supervision of displays and merchandising of the Company's various product lines. An important new aspect of the Company's wholesale merchandising efforts is the creation of in-store concept shops, where a broad collection of the Company's branded products are showcased. These in-store concept shops create an environment that is consistent with the Company's image and enable the retailer to display and stock a greater volume of the Company's products per square foot of retail space. In addition, these in-store concept shops encourage longer term commitment by the retailer to the Company's products and enhance consumer brand awareness. Currently, the Steve Madden(R) brand is featured in over fifty (50) in-store concept shops in its leading department and specialty store accounts.

In addition to merchandising support, the Company's customer service representatives maintain weekly communications with its accounts to guide them in placing orders to assist them in managing sell-through and inventory. The Company leverages its sell-through data gathered at its retail stores to assist department stores in allocating their open-to-buy dollars to the most popular styles in the product line and to phase out styles with poor sales records. In addition to this account order support, in 1997, the Company initiated an electronic data interchange ("EDI") program which allows top accounts rapid size replenishment of twelve style/color combinations of CORE products within one to two weeks. EDI is offered to a small number of accounts; however, recently the Company has expanded this program to add additional accounts and include a new core style for March 1998.

SPECIALTY SHOE STORES

The Company currently sells to one thousand (1,000) specialty shoe doors located throughout the United States and Canada. The Company's top specialty shoe accounts include Edison Brothers (Wild Pair, Precis, Baker's and Leed's) and juniors ready-to-wear stores such as Urban Outfitters, Gadzook's, Journeys, and The Buckle. The Company offers specialty shoe accounts the same merchandising, sell-through and inventory tracking support offered to its department store accounts.

COMPETITION

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

MARKETING AND SALES

Prior to 1997, the Company's marketing plans relied heavily on its few Steve Madden(R) retail store locations and word-of-mouth referrals. In 1997, the Company began to focus on creating a more integrated brand building program to establish Steve Madden as the leading designer of contemporary shoes for style-conscious young women. As a result, the Company developed a national advertising campaign for lifestyle and fashion magazines which was also used in regional marketing programs such as radio advertisements and billboards. The Company also continues to promote its website (WWW.STEVEMADDEN.COM) where consumers can purchase Steve Madden(R) products and interact with both the Company and other customers. Going forward, the Company has similar plans to launch a comprehensive brand building marketing plan for the David Aaron(R) brand.

In order to service its wholesale accounts, the Company employs a sales force of eleven (11) independent sales representatives. These sales representatives work on a commission basis and are responsible for placing the Company's products with its principal customers, including better department and specialty stores. The sales representatives are supported by the Vice President - - -- National Sales Manager, a staff of three (3) merchandise coordinators and thirteen (13) customer service representatives who continually cultivate relationships with wholesale customers. This staff assists accounts in merchandising, assessing customer preferences and inventory requirements, which ultimately serves to increase sales and profitability.

MANAGEMENT INFORMATION SYSTEMS (MIS) OPERATIONS

Sophisticated information systems are essential to the Company's ability to maintain its competitive position and to support continued growth. The Company operates on a dual AS/400 system which provides system support for all aspects of its business including manufacturing purchase orders; customer purchase orders; order allocations; invoicing; accounts receivable management; real time inventory management; quick response replenishment; point-of-sale support; and financial and management reporting functions. The Company has installed a PKMS bar coded warehousing system which is integrated with the wholesale system in order to provide accurate inventory positions and quick response size replenishment for its customers. In addition, the Company has installed an EDI system which provides a computer link between the Company and certain wholesale customers that enables both the customer and the Company to monitor purchases, shipments and invoicing. The EDI system also improves the Company's ability to respond to customer inventory requirements on a weekly basis. Anticipating continued growth, the Company recently strengthened its systems by adding an AS/400, model 620.

RECEIVABLES FINANCING

The Company finances its receivables through the use of a factor. The Company's present relationship with Capital Factors, Inc. permits the Company to draw down eighty (80%) percent of its invoiced receivables at an interest rate of the greater of six percent (6%) or prime plus (1%), whichever is greater. The agreement provides that Capital Factors is not required to purchase all the Company's receivables. The Company has utilized several other factors in the past and periodically explores alternative factoring relationships in order to obtain such receivables financing on terms which are more favorable to the Company.

TRADEMARKS

The Steve Madden(R) trademark has been registered in two International Classes (Int'l Cl. 18 - leather goods, handbags, wallets and Int'l Cl. 25 for clothing) in the United States Patent and Trademark Office ("PTO") and the Company has numerous applications for registration in other International Classes (such as sunglasses, jewelry, cosmetics, and fragrances) pending in the PTO. The Company also has a service mark registration in the PTO for the Steve Madden(R) mark in Int'l Cl. 35 for retail store services. Through the Company's seven (7) year long use of the Steve Madden(R) trademark in the United States in connection with shoes, the Company has also acquired common law trademark rights in the Steve Madden(R) trademark. The Company also has pending trademark applications for the Steve Madden(R) trademark in numerous countries around the world. There can be no assurance, however, that the Company will be able to effectively obtain rights in the Steve Madden(R) mark throughout all the countries of the world. The failure of the Company to protect such right from unlawful and improper appropriation may have a material adverse effect on the Company's business, financial condition and results of operation.

The Company also owns a federal trademark registration in the PTO for the David Aaron(R) trademark in Int'l Classes 18 and 25 (leather goods and clothing, shoes) and has numerous applications pending in the United States and around the world for the David Aaron(R) trademark and service mark. The Company believes that the David Aaron(R) trademark has a significant value and is important to the marketing of the Company's products.

EMPLOYEES

At February 28, 1998, the Company employed three hundred and sixty (360) persons, of whom approximately two hundred and ten (210) work on a full-time basis and approximately one hundred and fifty (150) work on a part-time basis. The Company employees include eighteen (18) persons in accounting, twenty four (24) in production and design, sixteen (16) in customer service and merchandise coordinating, six (6) in marketing, five (5) in MIS, twenty five (25) in warehouse and shipping, with the balance of the employees in operations, retail sales, and support positions. The management of the Company considers relations with its employees to be good. See "Management".

ITEM 2. PROPERTIES.

The Company maintains its principal executive offices and a wholesale warehouse at 52-16 Barnett Avenue, Long Island City, NY 11104, a wholesale warehouse at 3400 McIntosh Rd., Ft. Lauderdale, FL 33316 and a retail warehouse at 43-15 38th Street, Long Island City, New York 11101. The Barnett Avenue premises in Long Island City consist of approximately 8,500 square feet of administrative office space and approximately 2,500 square feet of wholesale warehouse space with an inventory capacity of 35,000 pairs of shoes. The premises in Ft. Lauderdale consist of approximately 2,000 sq. ft. of office space and approximately 21,600 sq. ft. of wholesale warehouse space with an inventory capacity of 325,000 pairs of shoes. The 38th Street premises in Long Island City consist of approximately 6,000 sq.ft. of retail warehouse space with an inventory capacity of 100,000 pairs of shoes.

The Company has a retail store at 540 Broadway in New York's Soho district (the "Soho Store") consisting of 1,500 square feet of retail space and approximately 2,500 square feet of warehouse with an inventory capacity 8,000 pairs of shoes. The Soho Store provides the Company with an opportunity to test new products, judge consumer preferences and market its footwear.

On November 1, 1995, the Company opened its distribution facility at 3400 Macintosh Road, Fort Lauderdale, FL 33316. The premises are divided into office space (2,000 square feet) and warehouse space (21,600 square feet). The lease for this facility terminates on September 30, 1998.

All of the Company's retail stores are leased pursuant to leases that extend for terms which average ten years in length. A majority of the leases include clauses that provide for

contingent rental payments if gross sales exceed certain targets. In addition, a majority of the leases enable the Company and/or the landlord to terminate the lease in the event that the Company's gross sales do not achieve certain minimum levels during a prescribed period. Many of the leases contain rent escalation clauses to compensate for increases in operating costs and real estate taxes.

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

YEARS LEASE TERMS EXPIRE	NUMBER OF STORES
2003	3
2004	1
2005	1
2007	4
2008	8
2009	1

ITEM 3. LEGAL PROCEEDINGS.

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

On or about March 13, 1998, the Company, its wholly owned subsidiary, Diva Acquisition Corp. ("Diva"), and its Chief Executive Officer were sued by Yves Levenson, the former President of Diva, as a result of the termination of Mr. Levenson's employment on March 5, 1998. In this action, entitled YVES LEVENSON V. STEVE MADDEN, STEVE MADDEN, LTD. AND DIVA ACQUISITION CORP., which is pending in the Supreme Court of New York, County of New York, Mr. Levenson alleges that (i) Diva has breached the terms of his employment agreement by improperly terminating his employment without cause, (ii) the restrictive covenant contained in his employment contract should be declared unenforceable because it improperly restricts his ability to earn a living, and (iii) the Company and Steve Madden tortiously interfered with Mr. Levenson's economic expectations. In his lawsuit, Mr. Levenson seeks damages in an amount based on his prospective compensation under his employment agreement, plus punitive damages and an injunction barring Diva's enforcement of the restrictive convenant. The Company believes that Mr. Levenson's claims are completely without merit, and intends to vigorously contest his lawsuit.

On or about March 13, 1998, the Company, its wholly owned subsidiary, Steven Madden Retail, Inc. and Stav Efrat were sued by Ooga Associates Corp. ("Ooga"), a design and construction firm previously engaged by the Company to design and construct certain of the Company's retail shoe stores. In this action, entitled OOGA ASSOCIATES CORP. V. STEVEN MADDEN, INC., STEVEN MADDEN RETAIL, INC., STEVEN MADDEN, LTD. AND STAV EFRAT, which is pending in the Supreme Court of New York, County of New York, Ooga principally alleges that (i) the Company breached an oral contract pursuant to which it engaged Ooga to exclusively design and build the Company's retail shoe stores, (ii) the Company induced Mr. Efrat, an officer and director of Ooga, to breach his fiduciary duties to Ooga by improperly employing his services, and (iii) the Company misappropriated Ooga's trade secrets by impermissibly using store designs and concepts owned by Ooga. In its lawsuit, Ooga seeks damages consisting of amounts based on its prospective earnings under the alleged oral contract with the Company, its lost earnings on certain projects it claims to have abandoned or forgone in reliance on the alleged oral contract with the Company, and on the value of the designs and concepts allegedly misappropriated by the Company, and also seeks an injunction prohibiting the Company from using Ooga's designs or other proprietary information, from employing any Ooga employees or interfering with Ooga's contractual relationships with its customers. The Company believes that Ooga's claims are completely without merit, and intends to vigorously contest its lawsuit.

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

No matters were submitted to a vote of the holders of the Company's Common Stock during the last quarter of its fiscal year ended December 31, 1997.

PART II

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

The Company's shares of Common Stock, Class A Warrants and Class B Warrants were quoted since December 10, 1993 on The Nasdaq SmallCap Market under the symbols SHOO, SHOOW and SHOOZ, respectively. In January 1996, the Class A Warrants ceased trading as a result of the Company's call for redemption of such securities. In January 1997, the Company's shares of Common Stock and Class B Warrants commenced trading on The Nasdaq National Market.

The following table sets forth the range of high and low bid quotations for the Common Stock, Class A Warrants, Class B Warrants for the two year period ended December 31, 1997, as reported by The Nasdaq SmallCap Market and The Nasdaq National Market. The quotes represent inter-dealer prices without adjustment or mark-ups, mark-downs or commissions and may not necessarily represent actual transactions. The trading volume of the Company's securities fluctuates and may be limited during certain periods. As a result, the liquidity of an investment in the Company's securities may be adversely affected.

	Common Stock		Class B Warrants	
	High	Low	High	Low
1996				
Quarter ended March 31, 1996	8-3/8	5-5/8	3-15/16	2-3/8
Quarter ended June 30, 1996	7-3/4	4-9/16	3	1-3/8
Quarter ended September 30, 1996	4-13/16	2-7/8	1-5/16	15/16
Quarter ended December 31, 1996	5-13/16	3-1/4	1-11/16	1-1/8
1997				
Quarter ended March 31, 1997	6-3/8	3-1/2	2-7/16	15/16
Quarter ended June 30, 1997	6-3/16	3-1/4	2	11/16
Quarter ended September 30, 1997	8-13/16	5-7/16	3-7/16	1-9/16
Quarter ended December 31, 1997	8-1/4	6-1/8	3-3/16	1-21/32

On March 16, 1998, the final quoted prices as reported by The Nasdaq National Market were $9.3125 for the Common Stock and $4.0625 for the Class B Warrants. As of March 16, 1998, there were 8,571,073 shares of Common Stock outstanding, held of record by approximately 89 record holders and 2,710 beneficial owners.

ITEM 6. 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. 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
YEARS ENDED
DECEMBER 31

CONSOLIDATED:	1997		1996	
Net Sales	$59,311,000	100%	$45,823,000	100%
Cost of Sales	34,744,000	59	31,343,000	68
Other Operating Revenue	2,321,000	4	951,000	2
Operating Expenses	22,262,000	38	13,998,000	31
Income from Operations	4,626,000	8	1,433,000	3
Interest Income (Expense) Net	-27,000	0	160,000	0
Income Before Income Taxes	4,599,000	8	1,593,000	3
Net Income	2,700,000	5	1,059,000	2

PERCENTAGE OF NET REVENUES
YEARS ENDED
DECEMBER 31

By Segment	1997		1996	
WHOLESALE DIVISIONS:				
STEVEN MADDEN, LTD.				
Net Sales	$38,487,000	100%	$36,464,000	100%
Cost of Sales	23,385,000	61	24,887,000	68
Other Operating Revenue	129,000	0	--	--
Operating Expenses	13,348,000	35	10,675,000	29
Income from Operations	1,883,000	5	902,000	3
DIVA ACQUISITION CORP.				
Net Sales	$6,447,000	100%	$3,013,000	100%
Cost of Sales	4,086,000	63	2,241,000	74
Operating Expenses	2,207,000	34	1,147,000	38
Income (Loss) from Operations	154,000	2	-375,000	-12
STEVEN MADDEN RETAIL INC.:				
Net Sales	$13,249,000	100%	$3,805,000	100%
Cost of Sales	6,143,000	46	1,871,000	49
Operating Expenses	5,501,000	42	1,385,000	36
Income from Operations	1,605,000	12	549,000	14
ADESSO MADDEN INC.:				
(FIRST COST)				
Net Sales	$1,128,000	--	$2,541,000	--
Cost of Sales	1,130,000	--	2,344,000	--
Commission Revenue	2,192,000	--	951,000	--
Total Operating Income	2,190,000	100%	1,148,000	100%
Operating Expenses	1,206,000	55	791,000	69
Income from Operations	984,000	45	357,000	31

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1997 VS. YEAR ENDED DECEMBER 31, 1996

CONSOLIDATED:

Sales for the year ended December 31, 1997 were $59,311,000, or 29% higher than the $45,823,000 recorded in the comparable period of 1996. The increase in sales is due to several factors including additional wholesale accounts, increased reorders, increased retail sales due to the opening of two retail stores in fourth quarter of 1996 and thirteen retail stores during 1997 and increased sales from the David Aaron brand (acquired April 1996). 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 percentage decreased 9% from 68% in 1996 to 59% in 1997. 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 1996. Gross profit as a percentage of sales increased 9% from 32% in 1996 to 41% in 1997.

Selling, general and administrative (SG&A) expenses increased by 59% to $22,262,000 in 1997 from $13,998,000 in 1996. The increase in the year ended December 31, 1997 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 67% increase in payroll, bonuses and related expenses from $5,010,000 in 1996 to $8,358,000 in 1997. Additionally, the Company focused its efforts on selling, advertising, marketing and designing thus increasing those expenses by 61% from $4,660,000 in 1996 to $7,517,000 in 1997. 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 150% from $1,507,000 in 1996 to $3,763,000 in 1997.

Income from operations for 1997 was $4,626,000 which represents an increase of $3,193,000 or 223% over the income from operations of $1,433,000 in 1996. Net income increased by 155% to $2,700,000 in 1997 from $1,059,000 in 1996.

WHOLESALE DIVISIONS:

Sales from the Steve Madden Wholesale Division ("Madden Wholesale"), accounted for $38,487,000 or 65% and $36,464,000 or 80% of total sales in 1997 and 1996, respectively. Cost of sales as a percentage of sales has decreased by 7% from 68% in 1996 to 61% in 1997 in Madden Wholesale. Gross profit as a percentage of sales increased 7% from 32% in 1996 to 39%

in 1997. Operating expenses increased by 25%, from $10,675,000 in 1996 to $13,348,000 in 1997. This increase is due to an increase in advertising expenses, 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 year ended December 31, 1997 was $1,883,000 compared to income from operations of $902,000 for the year ended December 31, 1996.

Sales from the Diva Acquisition Corp. Wholesale Division ("Diva Wholesale"-acquired April 1, 1996) which markets the "David Aaron" brand name in footwear accounted for $6,447,000 or 11%, and $3,013,000 or 7%, of total sales in 1997 and 1996, respectively. Gross profit as a percentage of sales increased from 26% in 1996 to 37% in 1997. Operating expenses increased by 92% from $1,147,000 in 1996 to $2,207,000 in 1997 due to increases in payroll and payroll related expenses, computer, printing, and depreciation expenses. Income from operations from Diva was $154,000 in 1997 compared to a loss of $375,000 in 1996.

RETAIL DIVISION:

Sales from the Retail Division accounted for $13,249,000 or 22% and $3,805,000 or 8% of total revenues in 1997 and 1996, respectively. The comparable stores sales for the year end increased 17% over the same period of 1996. The increase in Retail Division sales is primarily due to the Company's opening of retail stores in Roosevelt Field in Garden City, NY and Garden State Plaza in Paramus, NJ, in the fourth quarter of 1996, 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 and 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 all of which generated aggregate sales of $8,782,000. Selling, general and administrative expenses for the Retail Division increased to $5,501,000 or 42% of sales in 1997 from $1,385,000 or 36% of sales in 1996. 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 and the addition of a retail warehouse at 43-15 38th Street, Long Island City, NY. Income from operations from the retail division was $1,605,000 in 1997 compared to income from operations of $549,000 in 1996.

OTHER:

Adesso-Madden , a wholly owned subsidiary of the Company, generated sales of $1,128,000 in 1997 compared to revenue of $2,541,000 in 1996. This decrease in sales in the year ended December 31, 1997 reflects the change in how Adesso-Madden sells its products or services. The private label business currently provides design and sourcing services to its customers and records commission income. Adesso-Madden generated commission revenues of $2,192,000 for the year ended December 31, 1997 which represents an increase of $1,241,000 or 130% over the commission income of $951,000 in 1996. Operating expenses increased by 52% from $791,000 in 1996 to $1,206,000 in 1997 due to increases in selling and commission, payroll and payroll related expenses, and telephone expenses. Income from operations from Adesso-Madden was $984,000 in 1997 compared to an income of $357,000 in 1996.

LIQUIDITY AND CAPITAL RESOURCES

The Company has working capital of $16,545,000 at December 31, 1997 which represents an increase of $2,825,000 in working capital from December 31,1996. During the year ended December 31, 1997 the Company received proceeds of $1,339,000 from the exercise of options.

In November 1997, Steven Madden, Ltd., engaged Hambrecht & Quist, LLC as its exclusive placement agent in connection with a potential private placement of convertible securities. while Hambrecht & Quist has agreed to use their best efforts to place the securities (which are expected to be convertible into the Company's common stock at a premium to the current market price), there is no commitment to provide financing to the Company and the engagement may be terminated by either party. As of March 13, 1998, the Company has not received any funds from the private placement of its securities.

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, Precis, 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 year ended December 31, 1997, cash provided by operating activities was $2,405,000. Uses of cash arose principally from an increase in accounts receivable of $966,000, an increase in inventories of $2,324,000 and an increase in prepaid expenses and other assets of $680,000. Cash was provided principally by an increase in accounts payable and accrued expenses of $1,144,000.

The Company has lease agreements for office, warehouse, and retail space, expiring at various times through 2007. Future obligations under these lease agreements total $17,355,000.

The Company has employment agreements with various officers currently providing for aggregate annual salaries of approximately $1,400,000, 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 sales, net income, or net income before interest and taxes to three officers.

One of such officers, Steve Madden, Chairman, President and Chief Executive Officer of the Company, has entered into an amended employment agreement which eliminates the sales based bonus effective January, 1998. Mr. Madden's bonus, if any, is left to the discretion of the Board of Directors. The amended employment agreement provided a signing bonus of $200,000.

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 currency transaction losses.

INVESTING ACTIVITIES

During the year ended December 31, 1997, the Company used cash of $3,686,000 to acquire computer equipment and make leasehold improvements on new retail stores, warehouse space and office space.

FINANCING ACTIVITIES

During the year ended December 31, 1997, the Company received $1,339,000 from the exercise of options. In March 1997, the Company issued 85,979 shares of common stock in payment of the note payable of $645,000 issued in connection with the acquisition of Diva and subsequently issued 22,500 shares of common stock as additional purchase price.

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. Although such agreements did not generate substantial revenue in the twelve month period ended December 31, 1997, the Company expects to receive royalties as early as the third quarter of 1998.

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.

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

See financial statements following Item 13 of this Annual Report on Form 10-KSB.

ITEM 8. CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT OF THE REGISTRANT.

The names and ages of the directors and executive officers of the Company are set forth below:

NAME	AGE	POSITION(S) WITH THE COMPANY
Steven Madden	40	Chairman of the Board, Chief Executive Officer and President
Rhonda Brown	42	Chief Operating Officer and Director
Arvind Dharia	48	Chief Financial Officer, Director and Secretary
John Basile	46	Executive Vice President and Director
Gerald Mongeluzo	57	President of Adesso-Madden, Inc.
John L. Madden	51	Director
Peter Migliorini	49	Director
Les Wagner	57	Director

BACKGROUND OF EXECUTIVE OFFICERS AND DIRECTORS

STEVEN MADDEN has been since the Company's inception, the Chairman of the Board, Chief Executive Officer and President. In 1980, Mr. Madden joined L.J. Simone, a domestic footwear manufacturer, as an Account Executive. At that time, L.J. Simone had annual sales of approximately $800,000. Mr. Madden was promoted to Sales Manager and Director of Product Development and was instrumental in the company's growth to $28 million in annual sales. After leaving L.J. Simone in 1988, Mr. Madden joined M.C.M. Footwear, where he commenced the design, development and marketing of the "Souliers" line of footwear for women. In 1990, Mr. Madden founded the Company.

RHONDA J. BROWN has been the Chief Operating Officer of the Company since July 1996 and a director of the Company since November 1996. Prior to joining the Company, Ms. Brown served as President and Chief Executive Officer of Icing, Inc. from May 1995 to December 1995. Previously, from August 1992 to December 1994, Ms. Brown served as Merchandise President of Macy's East, a division of R.H. Macy & Co., Inc. From July 1988 to July 1992. Ms. Brown served as Senior Vice-President and General Merchandise Manager to Lord & Taylor, a division of the May Company. Ms. Brown attended the American University, receiving a BS in Marketing and Public Communications in 1976.

ARVIND DHARIA has been the Chief Financial Officer of the Company since October 1992 and a Director since December 1993. From December 1988 to September 1992, Mr. Dharia was Assistant Controller of Millennium III Real Estate Corp.

JOHN BASILE has been the Director of Operations of the Company since June 1994 and a Director of the Company since November 1996. From 1990 to 1994, Mr. Basile was Executive Vice President of Cougar U.S.A. responsible for the United States Division of Susan Shoes of Canada. Previously, Mr. Basile was a Sales Manager at Bellini Imports from 1980 to 1990.

GERALD MONGELUZO has been President of Adesso-Madden, Inc., a wholly owned subsidiary of the Company, since September 1995. Previously, Mr. Mongeluzo was the founder and President of Adesso Shoes, Inc., a buying agent of private label shoes. From 1987-1991, Mr. Mongeluzo was the President of the Prima Barabaro Division of Cells Enterprise, Inc. Mr. Mongeluzo founded Prima Shoes, Inc., a buying agent of private label shoes, and served as President from 1984 to 1987.

JOHN L. MADDEN has been a Director of the Company since the Company's inception. From February 1990 to April 1992, Mr. Madden served as a Branch Office Manager for Biltmore Securities Corp. From April 1992 until August 1993, Mr. Madden was associated with GKN Securities, Inc. as a Senior Account Executive. From August 1993 to April 1994, Mr. Madden returned to Biltmore Securities as a Managing Director and registered sales representative. From May 1994 to May 1996 Mr. Madden served as Vice President of Investments for GKN Securities,

Inc. From May 1996 through December 1996, Mr. Madden was associated with Kenny Securities, Inc. As of January 1997, Mr. Madden has been associated with Merit Capital, Corp. Mr. Madden is the brother of Steven Madden, the Company's Chairman of the Board, Chief Executive Officer and President.

PETER MIGLIORINI has been a Director of the Company since October 1996. From 1994 to present, Mr. Migliorini has served as Sales Manager for Greschlers, Inc., a major supply company located in Brooklyn, New York. From 1987 to 1994 Mr. Migliorini served as Director of Operations for Mackroyce Group. Mr. Migliorini has previously served in a number of capacities, ranging from Assistant Buyer to Chief Planner/Coordinator for several shoe companies including Meldico Shoes, Perry Shoes, and Fasco Shoes.

LES WAGNER has been a Director of the Company since October 1996. From 1993 to 1996, Mr. Wagner served as the President of Baker/Leeds Shoe Store, a Division of Edison Brothers Stores, Inc. Mr Wagner has served in a number of other capacities for Baker/Leeds from 1963 to 1993 which included, General Merchandise Manager from 1989 to 1993; Vice President Real Estate Northeast Area from 1988 to 1989; and President, Gussini Discount Shoe Division from 1987 to 1988. Mr. Wagner attended Harvard University, completing the Advanced Management Program (AMP 100). Mr. Wagner performs consulting services for the Company from time to time.

COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than ten percent (10%) of a registered class of the Company's equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than ten percent shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on its review of the copies of such reports furnished to the Company during the year ended December 31, 1997, all Section 16(a) filing requirements applicable to its officers and directors and greater than ten percent beneficial owners were satisfied.

ITEM 10. EXECUTIVE COMPENSATION

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

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

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

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

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

PART IV

ITEM 13. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) EXHIBITS.

EXHIBITS

3.01*	Certificate of Incorporation of the Company.
3.02*	By-Laws of the Company. (Incorporated by reference to the Company's Registration Statement on Form S-8, File No. 33-8810)
4.01*	Specimen Certificate for shares of Common Stock.
4.03*	Form of Warrant Agreement by and among the Company, the Underwriter and American Stock Transfer & Trust Company including Form of Class A Warrant Certificate and Form of Class B Warrant Certificate.
4.04*	Form of Underwriter's Unit Purchase Option.
5.01*	Opinion of Bernstein & Wasserman, as counsel to the Company.
10.01***	Amended Employment Agreement between the Company and Steven Madden, as amended.
10.02***	Employment Agreement between the Company and Arvind Dharia.
10.03**	Lease for 52-16 Barnett Avenue, Long Island City, New York.
10.04**	Lease for 86th Street, New York, New York.
10.05*	Lease for 540 Broadway, New York, New York.
10.06**	Employment Agreement of Edward L. Weitz.
10.07**	Employment Agreement of John Basile.
10.08*	Form of Bridge Loan Documents.
10.09**	Accounts Receivable Factoring Agreement
10.10**	Consulting Agreement with BOCAP Corp.

10.11**	Purchase Agreement dated as of April 1, 1994, by and between the Company and Marlboro Leather, Inc.
10.12***	Consulting Agreement with Gary DeLuca.
10.13***	Letter Agreement with Sam Schwarz.
10.14+	Employment Agreement of Gerald Mongeluzo.
10.15++	Assignment and Assumption Agreement among BOCAP Corp., Steven Madden and Steven Madden, Ltd.
10.16++	Guarantee issued by Steven Madden, Ltd. with respect to Employment Agreement of Gerald Mongeluzo.
10.17+++	Letter Agreement between the Registrant and Stratton Oakmont, Inc., pursuant to which Stratton Oakmont has waived its solicitation fee.
10.18--	Employment Agreement of Rhonda Brown.
10.19--	Employment Agreement of Yves Levenson.
10.20--	Agreement and Plan of Merger between the Company, Diva Acquisition Corp., and Diva International, Inc.
10.21--	Certificate of Merger between Diva International, Inc. and Diva Acquisition Corp.
10.22	License Agreement between Steven Madden, Ltd. and Winer Industries, Inc. dated as of June 1, 1997.
10.23	Amended Employment Agreement of Steven Madden.
10.24	Employment Agreement of Arvind Dharia.
21.01	Subsidiaries of Registrant

* Previously filed with and incorporated hereby with reference to the Registrant's Registration Statement on Form SB-2 (No.3367162-NY, as amended, declared effective on December 10, 1994.)

** Previously filed with and incorporated hereby with reference to the Registrant's Amendment No. 1 to Post Effective Amendment No. 1 to the Registration Statement on Form SB-2 (No. 33-67162-NY, as amended) filed on August 31, 1995.

*** Previously filed with and incorporated hereby with reference to the Registrant's Amendment No. 2 to Post Effective Amendment No. 1 to the Registration Statement on Form SB-2 (No. 33-671632-NY) filed on September 25, 1995.

+ Previously filed with and incorporated hereby with reference to the Registrant's Post Effective Amendment No. 5 to the Registration Statement on Form SB-2 (No. 33-671632-NY) filed on October 25, 1995.

++ Previously filed with and incorporated hereby with reference to the Registrant's Post Effective Amendment No. 6 to the Registration Statement on Form SB-2 (No. 33-671632-NY) filed on October 27, 1995.

+++ Previously filed with and incorporated hereby with reference to the Registrant's Post Effective Amendment No. 7 to the Registration Statement on Form SB-2 (No. 33-671632-NY) filed on October 31, 1995.

- - -- Previously filed with and incorporated hereby with reference to the Company's Form 10-KSB for the year ended December 31, 1996.

(b) REPORTS ON FORM 8-K.

None.

SIGNATURE

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

Dated: New York, New York
March 24, 1998

STEVEN MADDEN, LTD.

By:/s/ STEVEN MADDEN
Steven Madden
Chairman of the Board, President
and Chief Executive Officer

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

SIGNATURE	TITLE	DATE
/s/ STEVEN MADDEN Steven Madden	Chairman of the Board, President and Chief Executive Officer	March 24, 1998
/s/ ARVIND DHARIA Arvind Dharia	Chief Financial Officer and Director	March 24, 1998
/s/ JOHN L. MADDEN John L. Madden	Director	March 24, 1998
/s/ LES WAGNER Les Wagner	Director	March 24, 1998
/s/ RHONDA BROWN Rhonda Brown	Chief Operating Officer and Director	March 24, 1998
/s/ JOHN BASILE John Basile	Director of Operations and Director	March 24, 1998
/s/ PETER MIGLIORINI Peter Migliorini	Director	March 24, 1998

STEVEN MADDEN, LTD. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of Steven Madden, Ltd. and subsidiaries as of December 31, 1997, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the two-year period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements enumerated above present fairly, in all material respects, the consolidated financial position of Steven Madden, Ltd. and subsidiaries as of December 31, 1997, and the consolidated results of their operations and their consolidated cash flows for each of the years in the two-year period then ended in conformity with generally accepted accounting principles.

Richard A. Eisner & Company, LLP

New York, New York
February 6, 1998

STEVEN MADDEN, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1997

ASSETS	
Current assets:	
Cash and cash equivalents (Note A[3])	$ 3,887,000
Investments (Note A[4])	1,991,000
Accounts receivable - (net of allowances of $351,000)	1,127,000
Due from factor (net of allowances of $335,000) (Note C)	4,821,000
Inventories (Note A[5]	5,081,000
Prepaid advertising (Note I)	441,000
Prepaid expenses and other current assets	1,698,000
Prepaid taxes (Note F)	624,000
Total current assets	19,670,000
Property and equipment, net (Notes A[6] and B)	5,931,000
Prepaid advertising, less current portion (Note I)	1,041,000
Deferred taxes (Note F)	401,000
Deposits and other	258,000
Cost in excess of fair value of net assets acquired (net of accumulated amortization of $170,000) (Note A[7])	1,976,000
	$ 29,277,000
LIABILITIES	
Current liabilities:	
Current portion of lease payable (Note E)	$ 105,000
Accounts payable and accrued expenses	2,032,000
Accrued bonuses	593,000
Other current liabilities	395,000
Total current liabilities	3,125,000
Lease payable, less current portion (Note E)	359,000
	3,484,000
Commitments and contingencies (Note G)	
STOCKHOLDERS' EQUITY (NOTE D)	
Common stock - $.0001 par value, 60,000,000 shares authorized, 8,429,073 issued and outstanding	1,000
Additional paid-in capital	21,721,000
Unearned compensation	(1,281,000)
Retained earnings	5,809,000
Treasury stock at cost (101,800 shares)	(457,000)
	25,793,000
	$ 29,277,000

SEE NOTES TO FINANCIAL STATEMENTS

STEVEN MADDEN, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,	
	1997	1996
Net sales	$ 59,311,000	$ 45,823,000
Cost of sales	34,744,000	31,343,000
Gross profit	24,567,000	14,480,000
Other revenue	2,321,000	951,000
Operating expenses	(22,262,000)	(13,998,000)
Income from operations	4,626,000	1,433,000
Other income (expenses):		
Interest income	312,000	322,000
Interest expense	(339,000)	(162,000)
Income before provision for income taxes	4,599,000	1,593,000
Provision for income taxes	1,899,000	534,000
NET INCOME	$ 2,700,000	$ 1,059,000
BASIC INCOME PER SHARE	$ 0.33	$ 0.14
DILUTED INCOME PER SHARE	$ 0.30	$ 0.13
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC INCOME PER SHARE	8,064,604	7,689,848
EFFECT OF POTENTIAL COMMON SHARES	848,462	737,232
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED INCOME PER SHARE	8,913,066	8,427,080

SEE NOTES TO FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(NOTE D)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS
BALANCE - DECEMBER 31, 1995	6,415,776	$ 1,000	$ 11,179,000	$ 2,050,000
Exercise of stock options and warrants	1,417,818		6,342,000	
Common stock purchased for treasury				
Costs incurred in connection with registration			(40,000)	
Tax benefit from exercise of options			288,000	
Net income				1,059,000
Amortization of unearned compensation				
BALANCE - DECEMBER 31, 1996	7,833,594	1,000	17,769,000	3,109,000
Exercise of stock options	487,000		1,339,000	
Common stock issued in connection with purchase of subsidiary	108,479		809,000	
Compensation in connection with issuance of stock options			39,000	
Tax benefit from exercise of options			420,000	
Net income				2,700,000
Unearned compensation relating to issuance of stock options			1,345,000	
Amortization of unearned compensation				
BALANCE - DECEMBER 31, 1997	8,429,073	$ 1,000	$ 21,721,000	$ 5,809,000

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(NOTE D)

	TREASURY STOCK SHARES	TREASURY STOCK AMOUNT	UNEARNED COMPENSATION	TOTAL STOCKHOLDERS' EQUITY
BALANCE - DECEMBER 31, 1995			$ (464,000)	$ 12,766,000
Exercise of stock options and warrants				6,342,000
Common stock purchased for treasury	101,800	$ (457,000)		(457,000)
Costs incurred in connection with registration				(40,000)
Tax benefit from exercise of options				288,000
Net income				1,059,000
Amortization of unearned compensation			144,000	144,000
BALANCE - DECEMBER 31, 1996	101,800	(457,000)	(320,000)	20,102,000
Exercise of stock options				1,339,000
Common stock issued in connection with purchase of subsidiary				809,000
Compensation in connection with issuance of stock options				39,000
Tax benefit from exercise of options				420,000
Net income				2,700,000
Unearned compensation relating to issuance of stock options			(1,345,000)	0
Amortization of unearned compensation			384,000	384,000
BALANCE - DECEMBER 31, 1997	101,800	$ (457,000)	$(1,281,000)	$ 25,793,000

SEE NOTES TO FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,700,000	$ 1,059,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Options issued for consulting services	39,000	
Depreciation and amortization	774,000	368,000
Deferred taxes	50,000	(233,000)
Deferred compensation	384,000	144,000
Tax benefit from exercise of options	420,000	288,000
Provision for bad debts	361,000	714,000
Deferred rent expense		(36,000)
Changes in:		
Accounts receivable	(966,000)	326,000
Due from factor	41,000	(876,000)
Inventories	(2,324,000)	(1,381,000)
Prepaid expenses and other assets	(680,000)	(199,000)
Accounts payable and accrued expenses	1,144,000	280,000
Accrued bonuses	160,000	(163,000)
Other current liabilities	303,000	(11,000)
Tax liability	(1,000)	(1,154,000)
Net cash provided by (used in) operating activities	2,405,000	(874,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(3,686,000)	(1,180,000)
Acquisition of lease rights	(235,000)	(200,000)
Acquisition of subsidiary		(1,076,000)
Repayment of debt assumed in acquisition		(476,000)
Purchase of investment securities	(1,991,000)	
Net cash used in investing activities	(5,912,000)	(2,932,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from options and warrants exercised - net	1,339,000	6,302,000
Purchase of treasury stock		(457,000)
Repayments of lease obligations	(96,000)	(11,000)
Net cash provided by financing activities	1,243,000	5,834,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,264,000)	2,028,000
Cash and cash equivalents - beginning of year	6,151,000	4,123,000
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,887,000	$ 6,151,000
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of leased assets	$ 358,000	$ 194,000
Note issued in connection with acquisition		$ 645,000
Common stock issued in payment of acquisition note and additional acquisition cost	$ 809,000	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ 339,000	$ 162,000
Income taxes	$ 1,351,000	$ 1,116,000

SEE NOTES TO FINANCIAL STATEMENTS

STEVEN MADDEN, LTD. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] ORGANIZATION:

Steven Madden, Ltd. (the "Company") was incorporated on July 9, 1990, in the state of New York and is engaged primarily in the business of designing, wholesaling and retailing women's shoes. Substantially all of the Company's revenues are generated through wholesale and retail shoe sales. Domestic retail revenues are generated predominately through the sale of the Company's brand name merchandise. Such revenues are subject to seasonal fluctuations.

[2] USE OF ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

[3] CASH AND CASH EQUIVALENTS:

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. The Company purchases inventory utilizing letters of credit.

[4] INVESTMENTS:

Investments are stated at fair value and consist primarily of corporate commercial paper with maturities of less than one year.

[5] INVENTORIES:

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

[6] PROPERTY AND EQUIPMENT:

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

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

Cost in excess of fair value of net assets acquired (arising from the acquisition of Diva International, Inc. ("DIVA")), is being amortized over 15 years.

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed Of" ("SFAS 121") during the year ended December 31, 1996. SFAS 121 establishes accounting standards for the impairment of long-lived assets, certain identifiable assets, and goodwill related to those assets. There was no effect of adoption of SFAS 121 on the financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[8] NET INCOME PER SHARE OF COMMON STOCK:

The Company adopted SFAS No. 128 "Earnings Per Share" in the period ended December 31, 1997 and has retroactively applied the effects thereof for all periods presented. Accordingly, the presentation of per share information includes calculations of basic and diluted income per share. The impact on the per share amounts previously reported was not significant.

[9] CONCENTRATION OF CREDIT RISK:

The Company has amounts on deposit with financial institutions in excess of the amount insured.

The Company purchases approximately 35% of their inventory from two suppliers in Brazil and Mexico.

The Company has sales to a customer which represents approximately 11% and 17% of sales and 13% and 28% of accounts receivable at December 31, 1997 and 1996, respectively.

[10] FAIR VALUE OF FINANCIAL INSTRUMENTS:

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

[11] STOCK-BASED COMPENSATION:

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Acounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation". SFAS 123 encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has elected to continue to account for its stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees" and disclose the pro forma effects on net income and earnings per share had the fair value of options been expensed. Under the provisions of APB No. 25, compensation arising from the grant of stock options is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of the grant over the amount an employee must pay to acquire the stock (see Note D[9]).

[12] RECENT ACCOUNTING PRONOUNCEMENTS:

In June 1997, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 129, "Disclosure of Information about Capital Structure", No. 130, "Reporting Comprehensive Income", and No. 131, "Disclosure about Segments of an Enterprise and Related Information". The Company believes that the above pronouncements will not have a significant effect on the information presented in the financial statements.

NOTE B - PROPERTY AND EQUIPMENT

The major classes of assets and accumulated depreciation and amortization at December 31, 1997 are as follows:

Leasehold improvements	$ 4,660,000
Machinery and equipment	323,000
Furniture and fixtures	325,000
Computer equipment	1,419,000
Equipment under capital lease	217,000
	6,944,000
Less accumulated depreciation and amortization	(1,013,000)
Property and equipment - net	$ 5,931,000

NOTE C - DUE FROM FACTOR

Under the terms of a factoring agreement, the Company can borrow up to 80 percent of aggregate receivables purchased by the factor at an interest rate of prime plus 1%. (The minimum interest rate cannot go below 6%). The Company also pays a fee equal to .75% of the gross invoice amount of each receivable purchased with a minimum annual fee of $150,000. The Company sells and assigns a substantial portion of its receivables principally without recourse, to the factor. The factor assumes the credit risk to all assigned accounts approved by it, but maintains liens on all trade receivables (whether or not assigned) and the goods represented thereby. Pursuant to accounting standards for transfer of receivables without recourse, these transfers are recognized as sales.

NOTE D - STOCKHOLDERS' EQUITY

[1] THE 1993 INCENTIVE STOCK OPTION PLAN:

The Company has a 1993 Incentive Stock Option Plan (the "1993 Plan") under which options to purchase up to 100,000 shares of common stock may be granted to key employees and directors. The plan provides that the option price shall not be less than the fair market value of the common stock on the date of grant and that no portion of the option may be exercised beyond ten years from that date. No option may be granted after August 2003, and no incentive stock option can be granted for more than five years to a stockholder owning 10% or more of the Company's outstanding common stock.

At December 31, 1997 and December 31, 1996, no shares were available for the granting of additional options under the 1993 Plan.

[2] THE 1995 STOCK PLAN:

The Company has a 1995 Stock Plan (the "1995 Plan") under which options to purchase up to 330,000 shares of common stock may be granted to employees and directors. The plan provides that the option price shall not be less than the fair market value of the common stock on the date of grant and that no portion of the option may be exercised beyond ten years from that date. No option may be granted after May 2005, and no incentive stock option can be granted for more than five years to a stockholder owning 10% or more of the Company's outstanding common stock.

NOTE D - STOCKHOLDERS' EQUITY (CONTINUED)

[2] THE 1995 STOCK PLAN: (CONTINUED)

During 1997 and 1996, 7,500 and 300,000 options were granted and at December 31, 1997 22,500 options were available for grant.

[3] THE 1996 STOCK PLAN:

The Company has a 1996 Stock Plan (the "1996 Plan") under which options to purchase up to 375,000 shares of common stock may be granted to employees and directors. The Plan provides that the option price shall not be less than the fair market value of the common stock on the date of grant and that no portion of the option may be exercised beyond ten years from that date. No incentive stock option can be granted for more than five years to a stockholder owning 10% or more of the Company's outstanding common stock.

During 1997, 375,000 options were granted and at December 31, 1997, no shares were available for the granting of additional options under the 1996 Plan.

[4] THE 1997 STOCK PLAN:

The Company has a 1997 Stock Plan (the "1997 Plan") under which options to purchase up to 1,000,000 shares of common stock may be granted to employees and directors. The Plan provides that the option price shall not be less than the fair market value of the common stock on the date of grant and that no portion of the option may be exercised beyond ten years from that date. No incentive stock option can be granted for more than five years to a stockholder owning 10% or more of the Company's outstanding common stock.

During 1997, 990,000 options were granted and at December 31, 1997 10,000 options were available for grants.

[5] OTHER STOCK OPTIONS:

In March 1995, the Company issued options to purchase 1,000,000 shares of its common stock to a company wholly owned by the Company's President, Chief Executive Officer and a stockholder. The options were subsequently transferred to the President. The options which are fully exercisable, have an exercise price of $1.75 and an exercise period of 10 years. Unearned compensation was recorded in the amount of $575,000, which represented the difference between the exercise price and the fair value of the stock on the date of grant, and is classified as a component of stockholders' equity. The unearned compensation was being amortized over four years, however, there was no net charge to earnings since the amount which would otherwise have been recorded as compensation reduced the President's bonus. If such bonus was not sufficient to offset the amortization in any of the four years, the President was required to pay to the Company an amount equal to the shortage. The unamortized portion was charged to operations in the current year in connection with the President's amended employment agreement (see Note G[1]).

In connection with the amended employment agreement the Company issued the President options to purchase 500,000 shares of its common stock. The options, which vest in August of 1998, have an exercise price of $3.31 and an exercise period of 10 years. Unearned compensation was recorded in the amount of $1,345,000 which represents the difference between the exercise price and the fair value of the stock on the date of grant, and is classified as a component of stockholders equity. The unearned

NOTE D - STOCKHOLDERS' EQUITY (CONTINUED)

[5] OTHER STOCK OPTIONS: (CONTINUED)

compensation is being amortized over the ten year life of the amended agreement and charged to compensation expense.

The Company issued options to purchase 1,500,000 shares of its common stock to its President in 1995 with an exercise price of $7.00 (market price on date of grant) and an exercise period of 10 years. The options were to have vested equally over a period of three years beginning January 1, 1997. No compensation was recorded in connection with the issuance of these options. Subsequently, in January 1996, these options were returned to the Company.

During 1995 the Company issued options to purchase 200,000 shares of its common stock at $7.50 to a financial consultant.

[6] STOCK OPTIONS:

Information relating to stock options is as follows:

	1997		1996	
	NUMBER OF SHARES	AVERAGE EXERCISE PRICE	NUMBER OF SHARES	AVERAGE EXERCISE PRICE
Outstanding at January 1	1,718,500	$3.93	2,963,500	$5.06
Granted	1,152,500	$4.70	510,000	$5.86
Exercised	(487,000)	$2.75	(165,000)	$2.37
Cancelled	(84,000)	$4.67	(1,590,000)	$6.80
Outstanding at December 31	2,300,000	$4.54	1,718,500	$3.93
Shares exercisable	1,296,780	$4.53	1,718,500	$3.93

[7] WARRANTS:

In connection with the initial public offering, the Company granted to the underwriter an option to purchase an aggregate of 150,000 units exercisable for four years commencing December 10, 1995 (one year after the effective date) at an exercise price of $5.80 per unit. Each unit consists of one share of common stock, one Class A warrant and one Class B warrant.

The Company has no outstanding Class A warrants and 1,875,000 Class B warrants exercisable through December 10, 1998. Each Class B warrant entitles the holder to purchase one share of common stock at a price of $5.50 per share. The warrants are redeemable by the Company, under certain conditions. The Company issued 1,252,818 and 616,472 shares of its common stock in 1996 and 1995 resulting from the exercise of Class A warrants. In connection therewith, the Company received proceeds of approximately $5,950,000 and $2,928,000, respectively.

The Company also has outstanding 150,000 Class C warrants issued in connection with bridge financing. Each Class C warrant is exercisable through December 10, 1998 and entitles the holder to purchase one share of common stock at a price of $15.00 per share.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997

NOTE D - STOCKHOLDERS' EQUITY (CONTINUED)

[7] STOCK-BASED COMPENSATION:

The Company applies APB 25 in accounting for its stock option incentive plan and, accordingly, recognizes compensation expense for the difference between the fair value of the underlying common stock and the grant price of the option at the date of grant. The effect of applying SFAS No. 123 on 1997 and 1996 pro forma net income as stated above is not necessarily representative of the effects on reported net income for future years due to, among other things (1) the vesting period of the stock options and (2) the fair value of additional stock options in future years. The average fair value of options granted in 1997 and 1996 was approximately $3.25 and $3.06, respectively. The following pro forma information gives effect to the fair value of the options on the date of grant using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%, volatility of 56% for 1997 and 73% for 1996, risk free interest rates of 5.80% - 6.17% for 1997 and 5.98% - 6.82% for 1996, and expected life of 3 to 5 years for 1997 and 1 1/2 to 5 years for 1996.

	1997	1996
Net income:		
As reported	$ 2,650,000	$ 1,059,000
Pro forma	504,000	135,000
Basic income per share:		
As reported	.33	.14
Pro forma	.06	.02
Diluted income per share:		
As reported	.30	.13
Pro forma	.06	.02

NOTE E - LEASES

[1] CAPITAL LEASES:

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

1998	$ 140,000
1999	140,000
2000	138,000
2001	131,000
2002	38,000
Total minimum lease payments	587,000
Less amounts representing interest	123,000
Present value of minimum lease payments	464,000
Less current maturities	105,000
Capital lease obligation, less current maturities	$ 359,000

NOTE E - LEASES (CONTINUED)

[1] OPERATING LEASES:

Future minimum annual lease payments under noncancelable operating leases consist of the following at December 31, 1997:

1998	$ 2,249,000
1999	2,115,000
2000	1,915,000
2001	1,996,000
2002	2,035,000
Thereafter	7,045,000
	$ 17,355,000

Rent expense for the years ended December 31, 1997 and 1996 was approximately $1,434,000 and $626,000, respectively.

NOTE F - INCOME TAXES

The 1997 and 1996 income tax provisions consist of the following:

	1997	1996
Current:		
Federal	$ 1,318,000	$ 510,000
State and city	531,000	257,000
	1,849,000	767,000
Deferred:		
Federal	(16,000)	(101,000)
State and city	66,000	(132,000)
	50,000	(233,000)
	$ 1,899,000	$ 534,000

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

	DECEMBER 31,	
	1997	1996
Income taxes at federal statutory rate	34.0%	34.0%
State income taxes - net of federal income tax benefit	7.7	5.9
Nondeductible items	3.7	1.6
Net operating loss carryforward benefit	(.4)	(4.6)
Other	(3.8)	(3.4)
Effective rate	41.2%	33.5%

NOTE F - INCOME TAXES (CONTINUED)

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

The components of deferred taxes are as follows at December 31, 1997 and 1996:

	1997	1996
Deferred tax liabilities:		
Accelerated depreciation	$ (94,000)	$ (22,000)
Deferred tax assets:		
Accounts receivables allowances	356,000	169,000
Capitalization of inventory	139,000	
Deferred compensation		230,000
Net operating loss benefit		74,000
	$ 401,000	$ 451,000

NOTE G - COMMITMENTS AND CONTINGENCIES

[1] EMPLOYMENT AGREEMENTS:

The Company has an employment agreement with its President/Chief Executive Officer which was amended in July 1997 to extend the term through January 2008. The employment agreement provides for salary commitments of $3,980,000 over the next ten years. Additionally, the agreement provides for a discretionary bonus in cash, capital stock or other property as the board may determine from time to time. The prior agreement provided for a bonus plan based on graduated rates at specified levels of net revenue. The bonus was payable in cash or in the Company's stock at the option of the officer. Bonus payable in stock was to be based on 2/3 of the market price on the date of election. Bonuses payable for the years ended December 31, 1997 and 1996 have each been reduced by $144,000 for the amortization of the unearned compensation discussed in Note D[5].

In June 1994, the Company entered into a two-year employment agreement which automatically extended for an additional one year period with its Director of Operations. The agreement provided for an annual salary of $135,000 and a bonus based on specified earnings. As of August 1996, the agreement was amended to increase the salary to $250,000. The agreement has expired and the Company is currently negotiating a new agreement.

In September 1996, the Company's newly formed wholly-owned subsidiary, Adesso-Madden, Inc., entered into a two-year employment agreement with its President which provides for an annual salary of $208,000 and a cash bonus based on the subsidiary's pretax income.

In July 1997, the Company entered into a three-year employment agreement with its Chief Operating Officer. The agreement provides for an annual salary of $200,000 increasing by 10% each year and a bonus based upon the Company's consolidated earnings before the payment of interest or taxes or deduction for depreciation.

NOTE G - COMMITMENTS AND CONTINGENCIES (CONTINUED)

[1] EMPLOYMENT AGREEMENTS: (CONTINUED)

At December 31, 1997 and December 31, 1996, the Company accrued $593,000 and $433,000, respectively, in bonuses to officers. For the years ended December 31, 1997 and 1996, the Company has included in its operating expenses, bonuses to officers of approximately $1,146,000 and $552,000, respectively.

[2] LETTERS OF CREDIT:

Open letters of credit at December 31, 1997 and 1996 amounted to approximately $3,550,000.

[3] PENDING LITIGATION

(a) On or about March 13, 1998, the Company, its wholly owned subsidiary, Diva Acquisition Corp. ("Diva"), and its Chief Executive Officer were sued by Yves Levenson, the former President of Diva, as a result of the termination of Mr. Levenson's employment on March 5, 1998. In this action, entitled YVES LEVENSON V. STEVE MADDEN, STEVEN MADDEN, LTD. AND DIVA ACQUISITION CORP., which is pending in the Supreme Court of New York, County of New York, Mr. Levenson alleges that (i) Diva has breached the terms of his employment agreement by improperly terminating his employment without cause, (ii) the restrictive covenant contained in his employment contract should be declared unenforceable because it improperly restricts his ability to earn a living, and (iii) the Company and Steve Madden tortiously interfered with Mr. Levenson's economic expectations. In his lawsuit, Mr. Levenson seeks damages in an amount based on his prospective compensation under his employment agreement, plus punitive damages and an injunction barring Diva's enforcement of the restrictive convenant. The Company believes that Mr. Levenson's claims are completely without merit, and intends to vigorously contest his lawsuit.

(b) On or about March 13, 1998, the Company, its wholly owned subsidiary, Steven Madden Retail, Inc. and Stav Efrat were sued by Ooga Associates Corp. ("Ooga"), a design and construction firm previously engaged by the Company to design and construct certain of the Company's retail shoe stores. In this action, entitled OOGA ASSOCIATES CORP. V. STEVEN MADDEN, INC., STEVEN MADDEN RETAIL, INC., STEVEN MADDEN, LTD. AND STAV EFRAT, which is pending in the Supreme Court of New York, County of New York, Ooga principally alleges that (i) the Company breached an oral contract pursuant to which it engaged Ooga to exclusively design and build the Company's retail shoe stores, (ii) the Company induced Mr. Efrat, an officer and director of Ooga, to breach his fiduciary duties to Ooga by improperly employing his services, and (iii) the Company misappropriated Ooga's trade secrets by impermissibly using store designs and concepts owned by Ooga. In its lawsuit, Ooga seeks damages consisting of amounts based on its prospective earnings under the alleged oral contract with the Company, its lost earnings on certain projects it claims to have abandoned or forgone in reliance on the alleged oral contract with the Company, and on the value of the designs and concepts allegedly misappropriated by the Company, of a material amount, and also seeks an injunction prohibiting the Company from using Ooga's designs or other proprietary information, from employing any Ooga employees or interfering with Ooga's contractual relationships with its customers. The Company believes that Ooga's claims are completely without merit, and intends to vigorously contest its lawsuit.

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

NOTE H - BUSINESS SEGMENT INFORMATION

The nature of products classified in the business segments presented herein is described in Note A.

Intersegment sales are not material. "Other" includes revenues, expenses and identifiable assets of the Company's wholly-owned subsidiary, Adesso-Madden, Inc., which was formed in September 1995.

"Wholesale" includes the revenues, expenses and identifiable assets of Steven Madden wholesale and Diva International, Inc. which was acquired in April 1996.

	WHOLESALE	RETAIL	OTHER	CONSOLIDATED
Year ended December 31, 1997:				
Net sales	$44,934,000	$13,249,000	$ 1,128,000	$59,311,000
Operating earnings	1,946,000	1,605,000	1,075,000	4,626,000
Identifiable assets	20,424,000	8,341,000	512,000	29,277,000
Depreciation and amortization	371,000	401,000	2,000	774,000
Capital expenditures	640,000	3,038,000	8,000	3,686,000
Year ended December 31, 1996:				
Net sales	39,477,000	3,805,000	2,541,000	45,823,000
Operating earnings	527,000	549,000	357,000	1,433,000
Identifiable assets	19,184,000	2,293,000	546,000	22,023,000
Depreciation and amortization	293,000	75,000		368,000
Capital expenditures	379,000	795,000	6,000	1,180,000

NOTE I - BARTER TRANSACTION

In 1995, the Company sold inventory (which had a cost of $1,560,000) in exchange for advertising credits. The Company recorded a sale in the amount of $2,300,000 (the estimated fair market value of the merchandise sold) and accordingly, recognized a gross profit of approximately $740,000 on the transaction. The credits received may be applied towards future advertising at the rate of 60%; the remaining 40% is to be paid by the Company. The advertising credits were to expire in December 1998 but the agreement was extended through 1999. The Company estimates that it will utilize the credits prior to their expiration.

NOTE J - SUBSEQUENT EVENT

LOAN GUARANTEE:

The Company provided a short-term guarantee of a $2,900,000 loan from the company's factor to a company wholly-owned by the Company's president. The loan is collateralized by the assets of the Company. The Board voted to grant the corporate guarantee because (i) it would settle litigation that may be negatively impacting the view of the Company by various securities analysts and market makers, (ii) the shares of the Company's stock in the hands of the company related to the President are the subject of the litigation which if settled adversely could materially adversely affect the Company, and (iii) the pending litigation has created an unwanted distraction for the Company's Chairman of the Board, CEO and President. The guarantee was in effect until a registration statement covering the sale of shares held by the President's company was declared effective on March 5, 1998.

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LICENSE AGREEMENT

BETWEEN

STEVEN MADDEN, LTD.

AND

WINER INDUSTRIES, INC.

DATED AS OF

JUNE 1, 1997

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THE SCHEDULE REFERRED TO IN THE AGREEMENT DATED AS OF JUNE 1, 1997.

S.1. THE LICENSOR: STEVEN MADDEN, LTD.
52-16 BARNETT AVENUE
LONG ISLAND CITY, NY 11104

S.2. THE LICENSEE: WINER INDUSTRIES, INC.
404 GRAND STREET
PATERSON, NJ 07505

S.3. THE LICENSED MARK: STEVE MADDEN

S.4. THE TYPE OF LICENSE: EXCLUSIVE

S.5. THE USE OF THE TRADEMARKS: DESIGN, MANUFACTURE, ADVERTISE, SELL AND DISTRIBUTE.

S.6. THE PRODUCTS: JUNIOR AND YOUNG CONTEMPORARY SPORTSWEAR, ALL KNIT AND WOVEN TOPS, BOTTOMS, AND DRESSES OF ALL FABRICATIONS AND CONSTRUCTIONS, INCLUDING JEANSWEAR (EXCLUDING OUTERWEAR AND BODYWEAR SOLD TO THE BODYWEAR DEPARTMENT)

S.7. THE TERRITORY: THE UNITED STATES, ITS POSSESSIONS AND TERRITORIES

S.8. THE COMMENCEMENT DATE: 6/1/97
THE EXPIRATION DATE: 9/30/00
RENEWAL: TWO ADDITIONAL THREE (3) YEAR TERMS; AUTOMATIC OPTION TO RENEW IF LICENSEE HAS MINIMUM NET SALES OF $4,000,000 DURING THE SIX MONTH PERIOD COMMENCING OCTOBER 1, 1999 AND ENDING MARCH 31, 2000; AUTOMATIC OPTION TO RENEW IF LICENSEE HAS MINIMUM NET SALES OF $6,000,000 DURING THE SIX MONTH PERIOD COMMENCING OCTOBER 1, 2002 AND ENDING MARCH 31, 2003

S.9. THE GUARANTEED ROYALTY:

LICENSE YEAR 1 $150,000
(16 MONTHS)
ADVANCE UPON EXECUTION: $15,000
FOUR CALENDAR QUARTERLY PAYMENTS OF $33,750, BEGINNING 1/1/98

LICENSE YEAR 2 $225,000
FOUR QUARTERLY PAYMENTS OF $56,250

LICENSE YEAR 3 $300,000
FOUR QUARTERLY PAYMENTS OF $75,000

LICENSE YEAR 4 $350,000
FOUR QUARTERLY PAYMENTS OF $87,500

LICENSE YEAR 5 $450,000

FOUR QUARTERLY PAYMENTS OF $112,000

LICENSE YEAR 6 $500,000
FOUR QUARTERLY PAYMENTS OF $125,000

LICENSE YEAR 7 $750,000
FOUR QUARTERLY PAYMENTS OF $187,500

LICENSE YEAR 8 $750,000
FOUR QUARTERLY PAYMENTS OF $187,500

LICENSE YEAR 9 $750,000
FOUR QUARTERLY PAYMENTS OF $187,500

S.10. THE EARNED ROYALTY: FIVE PERCENT (5%) OF NET SALES

S 11. THE MINIMUM NET SALES:

LICENSE YEAR 1	$ 3,000,000
LICENSE YEAR 2	$ 4,500,000
LICENSE YEAR 3	$ 6,000,000
LICENSE YEAR 4	$ 7,000,000
LICENSE YEAR 5	$ 9,000,000
LICENSE YEAR 6	$ 10,000,000
LICENSE YEAR 7	$ 15,000,000
LICENSE YEAR 8	$ 15,000,000

S.12. THE ADVERTISING ROYALTY: TWO (2%) OF NET SALES

STEVEN MADDEN, LTD.

BY:______________________________
NAME:
TITLE:

WINER INDUSTRIES, INC.

BY:______________________________
NAME:
TITLE:

LICENSE AGREEMENT

BETWEEN

STEVEN MADDEN, LTD.

AND

WINER INDUSTRIES, INC.

This Agreement is made as of the 1st day of May 1997, between Steven Madden, Ltd., a New York corporation, with offices at 52-16 Barnett Avenue, Long Island City, NY 11104 (hereinafter called "Licensor") and Winer Industries, Inc., a Delaware corporation, with offices at 404 Grand Street, Paterson, NJ 07505 (hereinafter called "Licensee").

WHEREAS, Licensor has certain rights to the trademark identified in Paragraph S.3. of the schedule attached hereto and made a part hereof (the "Schedule"; such trademark, including all rights associated therewith shall hereinafter be referred to as the "Licensed Mark"); and

WHEREAS, Licensee recognizes that the Licensed Mark has acquired notoriety and goodwill with the general public by virtue of its use in connection with the manufacture, advertisement, distribution and sales of footwear products and accessories; and

WHEREAS, Licensee desires to obtain an exclusive right to use the Licensed Mark in connection with the design, manufacture and sale of the Articles (as hereinafter defined), and Licensor is willing to grant to Licensee such license under the terms and conditions hereinafter specifically set forth; and

WHEREAS, Licensee acknowledges that the Licensed Mark and its related goodwill and business are of great significance and value to Licensor and the Licensee's strict adherence to the quality control standards and other requirements provided in this Agreement are essential to the maintenance of the significance and value of the Licensed Mark and related goodwill and business; and

WHEREAS, Licensee pledges its cooperation in the maintenance and enhancement of the value and significance of the Licensed Mark throughout the world.

NOW, THEREFORE, in consideration of the mutual promises herein, it is mutually agreed as follows:

1. GRANT OF LICENSE.

a. GRANT:

(i) Upon and subject to the terms and conditions hereinafter set forth, Licensor hereby grants to Licensee, and Licensee hereby accepts, the right, license and privilege specified in Paragraph S.4. of the Schedule to use the Licensed Mark in connection with, and only with, the use, specified in Paragraph S.5. of the Schedule of specifically the designated and approved products specified in Paragraph S.6. of the Schedule (such products hereinafter shall be called the "Products" and Products bearing the Licensed Mark hereinafter are collectively called "Articles") in the territory specified in Paragraph S.7. of the Schedule (hereinafter called the "Territory"). It is understood and agreed that while the manufacture of the Articles may take place outside the Territory, no Articles may be advertised or sold outside the Territory. Advertisements within the Territory that are subject to incidental dissemination outside the Territory, such as newspapers delivered at resorts, shall not be deemed a violation so long as all advertising has received prior written approval of Licensor in accordance with paragraph 7 and all sales are strictly limited to the Territory by Licensor.

(ii) Except as set forth in paragraph 21, nothing contained in this Agreement shall prevent Licensor from (a) using or granting others the right or license to use the Licensed Mark or any other marks owned by Licensor or its affiliates on or in connection with Products in any area of the world (other than the Territory with respect to Articles) or on or in connection with any goods other than Products in any area of the world including the Territory, or (b) manufacturing or having manufactured in the Territory Products bearing any mark, including the Licensed Mark, for sale outside the Territory.

b. TERM:

(i) The term of this Agreement shall commence on the date specified in Paragraph S.8. of the Schedule (hereinafter called "Commencement Date") and shall expire on the date specified in Paragraph S.8. of the Schedule as the "Expiration Date," unless sooner terminated as provided under this Agreement or renewed as hereinafter provided.

(ii) This Agreement shall be renewed automatically for one (1) additional term of three (3) years (the "First Renewal Term") unless Licensee gives Licensor written notice not later than six (6) months prior to the end of the initial term, that it does not wish the Agreement to be renewed; provided, however, that the renewal of this Agreement shall be effective only if Licensee is not in default hereunder on the last day of the initial term and Licensee's Net Sales (as defined in paragraph 4.c (iii) below) for the six (6) month period commencing on October 1, 1999 and ending on March 31, 2000 are not less than $4,000,000. This Agreement shall be renewed automatically for one (1) additional term of three (3) years (the "Second Renewal Term") unless Licensee gives Licensor written notice not later than six (6) months prior to the end of the First Renewal Term, that it does not wish the Agreement to be renewed; PROVIDED, HOWEVER, that the renewal of this Agreement shall be effective only if Licensee is not in default hereunder on the last day of the First Renewal Term and Licensee's Net Sales for the six (6) month period commencing on October 1, 2002 and ending on March 31, 2003 are not less than

$6,000,000. The sixteen (16) month period commencing on Commencement Date and each twelve (12) month period commencing on each July 1 thereafter during the term of this Agreement shall constitute and shall be referred to herein as a "License Year."

c. TERRITORY:

This Agreement shall cover only the Territory and the use by Licensee of the Licensed Mark shall be confined to the Territory, except as provided in the last sentence of Paragraph 1.a.(i) hereof.

d. CHANNELS OF DISTRIBUTION:

Licensee may, without the prior written consent of Licensor, sell the Articles only through the following channels of distribution: better department stores, better speciality and junior chains, duty-free stores, better catalogs, college campus stores, direct sales from cable television advertising, Licensee's retail stores and web site, and discontinued and closeout merchandise only to Off-Price Retailers (as hereinafter defined) (collectively, the "Channels of Distribution"). "Off-Price Retailers" shall mean any major retail store which sells national name brand products for substantially less than the prices charged by major department stores. In the event that Licensor commences the sale of its footwear products to retailers outside the Channels of Distribution on a regular and on-going basis, Licensee shall be permitted to sell the Articles to the same retailers on a regular and on-going basis.

e. MINIMUM NET SALES:

Anything in this Agreement to the contrary notwithstanding, if Licensee's Net Sales in any License Year shall be less than ninety five percent (95%) of the Minimum Net Sales as provided in paragraph S.11 of the Schedule for such License Year, then Licensor shall have the right to terminate this Agreement by notifying Licensee of its election to terminate within thirty (30) days after Licensor's receipt of the final quarterly statement for such License Year for which Minimum Net Sales were not attained. Such termination shall have no effect upon the amounts due and payable to Licensor for periods prior to or after termination.

2. COVENANTS OF LICENSEE.

a. USE:

(i) Subject to Licensor's prior approval as hereinafter provided, Licensee shall commence the manufacture, sale and distribution of all of the various types of Products as soon as practicable after the Commencement Date. If Licensee has not commenced and is not continuing the sale of each such type of Products by May 31, 1998 (subject to temporary discontinuation of some Articles resulting from seasonal changes in the business), Licensor may delete such type of Products from the definition of "Products" hereunder upon written notice thereof

to Licensee. If, during any License Year, Licensee has not offered for sale any specific type of Products, Licensor may delete any such type of Products from the definition of "Products" hereunder upon written notice to Licensee given within thirty (30) days after the end of any such License Year. In addition, if Licensee fails to generate at least $500,000 in Net Sales from the sale of jeanswear products by the end of License Year 2, jeanswear may be deleted from the definition of Products. If Licensee fails to have Net Sales of at least $1,000,000 from the sale of dresses during any License Year, then Licensor may delete dresses from the definition of Products. If any type of Products is so deleted from the definition of "Products," all rights with respect to the use of the Licensed Mark in connection with such Products shall revert to Licensor which then may exercise such rights in any manner it desires.

(ii) Within the Channels of Distribution, Licensee shall sell the Articles to retailers for sale or resale and distribution directly to the public. If Licensee sells or distributes the Articles at a special price, directly or indirectly, to itself, including without limitation, any subsidiary of Licensee or to any other person, firm, or corporation affiliated with Licensee or its officers, directors or major stockholders, for ultimate sale to unrelated third parties, Licensee shall pay royalties with respect to such sales or distribution, based upon the price generally charged to the trade by Licensee. Licensee shall not cause or authorize any use of the Licensed Mark in any area of the world outside the Territory and shall not knowingly manufacture, sell or otherwise deal with or distribute any of the Articles on behalf of, or to, any person, firm or corporation that Licensee believes or has reason to believe intends, or is likely, to deal with the same in any way outside the Territory.

(iii) Licensee, hereby acknowledges that due to the nature of the industry, precise definition of Products is sometimes not possible. Accordingly, in the event of any dispute between Licensee and any other licensee of Licensor in the Territory with respect to the products covered by their respective licenses, such dispute shall be mediated in good faith by Licensor. Licensor's determination shall be final and binding; provided however, that the definition of "Products" shall not be amended or modified without Licensee's prior written consent which consent will not be unreasonably withheld or delayed.

b. EFFORTS.

(i) Licensee shall, throughout the term of the Agreement and as permitted by this Agreement, constantly use its best efforts in the selling, distributing and promoting and any other dealing with or disposal of Articles to protect the good name and goodwill associated with the Licensed Mark and Licensor and to obtain the greatest number of sales of Articles throughout the Territory during the entire term of this Agreement. Licensee shall be responsible for and shall assume and pay for all costs and expenses related to the design, manufacture, advertising, promotion and sale of Articles.

(ii) Licensee shall use its best efforts to solicit sales from a broad and varied account base during the term of this Agreement, and in no event shall

Licensee sell on an exclusive basis to one retailer without first obtaining Licensor's written permission.

(iii) Upon request by Licensor, Licensee shall supply Articles and displays to Licensor for sale by Licensor (or an Affiliate thereof) in retail stores. In allocating Articles and displays, Licensee shall provide Articles and displays to Licensor as if Licensor was a best, or most favored customer account of Licensee. Such Articles and displays shall be sold to Licensor (or an Affiliate thereof) at a price equal to Licensee's wholesale price for such Articles and/or displays less twenty five percent (25%) of such price. All such sales shall be credited against the Minimum Net Sales requirements as if sold without the twenty five percent (25%) discount. Licensor agrees to pay for Articles within thirty (30) days following receipt by Licensor of an invoice therefor. No Earned Royalty or Advertising Royalty shall be due with respect to sales to Licensor. Licensor agrees that it shall not sell any Products, other than the Articles in its retail or any outlet stores.

c. REPRESENTATIONS AND WARRANTIES OF LICENSEE.

Licensee represents and warrants to Licensor that during the term of this Agreement and thereafter:

(i) It has, and will continue to have throughout the entire term of this Agreement, the legal right to enter into this Agreement and to assume the obligations hereunder and that there are no, and Licensee shall not enter into during the term hereof, contracts, agreements or understandings with anyone which would in any way restrict or prevent it from performing its obligations under this Agreement.

(ii) It will not attack the title of Licensor in and to the Licensed Mark or any copyright or trademark pertaining thereto, nor will it attack the validity of the license granted hereunder;

(iii) It will not harm, misuse or bring into disrepute the Licensed Mark, but on the contrary, will maintain the value and reputation thereof to the best of its ability;

(iv) It will manufacture, sell, promote and distribute the Articles in an ethical manner and in accordance with the terms and intent of this Agreement, and in compliance with all applicable material government regulations and industry standards;

(v) It will not create any expenses chargeable to Licensor without the prior written approval of Licensor;

(vi) It will at all times comply with all material government laws and regulations, including but not limited to product safety, food, health, drug, cosmetic, sanitary or other similar laws, and all industry standards relating or pertaining to the

manufacture, sale, advertising or use of the Articles, and shall maintain its appropriate customary high quality standards. It shall comply with all material regulations of regulatory agencies which shall have jurisdiction over the Articles and shall procure and maintain in force any and all permissions, certifications and/or other authorizations from governmental and/or other official authorities that may be required in relation thereto. Each Article and component thereof distributed hereunder shall comply with all material applicable laws, regulations and industry standards. Licensee shall follow reasonable and proper procedures for testing that all Articles comply with such laws, regulations and standards. Upon reasonable notice, Licensee shall permit Licensor or its designees to inspect testing records and procedures with respect to the Articles for compliance. Articles that do not comply with all material applicable laws, regulations and standards shall automatically be deemed unapproved and Licensee shall upon notification of noncompliance immediately cease manufacturing distributing, selling and marketing such Articles until Licensee and/or the Articles complies with such laws, regulations and standards;

(vii) It will provide Licensor with the date(s) of first use of the Articles in interstate and intrastate commerce, where appropriate;

(viii) It will, pursuant to Licensor's instructions, duly take any and all necessary steps to secure execution of all necessary documentation for the recordation of itself as user of the Property in any jurisdiction where this is required or where Licensor reasonably requests that such recordation shall be effected. Licensee further agrees that it will at its own expense cooperate with Licensor in cancellation of any such recordation at the expiration of this Agreement or upon termination of Licensee's right to use the Property. Licensee hereby appoints Licensor its Attorney-in-fact for such purpose and for no other purpose; and

(ix) It will not deliver or sell Articles outside the Territory or knowingly sell Articles to a third party for delivery outside the Territory.

(x) Licensee agrees to attend at its sole expense and participate at the annual tradeshows in Las Vegas, known as the Magic Show, with Licensor for promotion of the Articles. Further, Licensee agrees to pay Licensor charges and expenses related to the booth space used to promote the Articles.

(xi) Licensee shall at it's sole expense launch the introduction of the Articles with a fashion show reasonably acceptable to Licensor and at a cost reasonably acceptable to Licensee.

(xii) Licensee shall hire or retain sales executives and fashion designers exclusively for the sale and design of the Articles. Prior to hiring fashion designer(s), Licensee shall confer with Licensor. Nothing herein shall limit Licensee's right to direct its regular sales personnel and designers from participating in the sale and design of the Articles, where appropriate.

(xiii) Licensee shall maintain a separate showroom for the Articles which maintains the image of the Licensed Mark and is reasonably acceptable to the Licensor.

3. COVENANTS OF LICENSOR. Licensor represents and warrants to Licensee that, during the term of this Agreement:

(i) It has, and will continue to have, the legal right to enter into this Agreement and to assume the obligations hereunder and that there are no, and Licensor shall not enter into during the term hereof, contracts, agreements or understandings with anyone which would in any way restrict or prevent it from performing its obligations under this Agreement, including without limitation, any agreement pursuant to which Licensor grants with respect to the Products a license for a trademark to a third party which is confusingly similar to the Licensed Mark;

(ii) It will not harm, misuse or bring into disrepute the Licensed Mark, but on the contrary, will maintain the value and reputation thereof to the best of its ability;

(iii) It will not create any expenses chargeable to Licensee without the prior written approval of Licensee, except for expenses incurred pursuant to paragraph 2.c.(x) by Licensor for tradeshows which Licensee shall promptly reimburse Licensor for Licensee's proportionate share of such expenses;

(iv) To the best of its knowledge (i) it is the sole and exclusive owner of and has good title to the Licensed Mark with respect to the Articles, it has the full and sufficient right and authority to grant to Licensee the rights and privileges granted hereby; (ii) the Licensed Mark with respect to the Articles has not been used under circumstances that have caused the loss of the rights therein; (iii) the Licensed Mark with respect to Articles does not infringe upon or interfere with any trademark, trade dress, trade secret or other intellectual property right of any third party; (iv) Licensor is not aware of any claim or assertion that the Licensed Mark with respect to Articles infringes upon or interferes with any trade dress, trade secret or other intellectual property right of any third party, and in the event that a material claim is asserted, Licensor agrees to vigorously defend such claim; and (v) it has not granted any option, right, privileges or license to any third parties which interfere or conflict with the rights and privileges granted to Licensee hereby;

(v) During the term of this Agreement, it shall not market, sell or distribute, nor license any third party to market, sell or distribute, the Products to retail customers in the Territory bearing the Licensed Mark, except as provided in this Agreement; and

(vi) A breach of a material covenant contained in this Section 3 shall entitle Licensee to terminate this Agreement upon thirty (30) days prior written notice to Licensor. In the event that Licensor fails to cure such breach within such thirty (30) day period, this Agreement shall terminate and Licensor shall indemnify Licensee for all costs and expenses actually incurred by Licensee resulting from

Licensor's breach under this paragraph 3. In no event shall Licensee be entitled to receive special or consequential damages (including lost profits) for Licensor's breach hereunder.

4. TRADEMARK ROYALTY.

a. GUARANTEED ROYALTY:

The first term of this Agreement will consist of one (1) sixteen (16) month and two twelve (12) month periods. Licensee shall pay a guaranteed minimum trademark royalty ("Guaranteed Royalty") of $150,000 for the first License Year as follows: $15,000 upon the signing of this Agreement; and $135,000 in four (4) consecutive equal quarterly installments of $33,750 payable on the first day of each calender quarter commencing January 1, 1998. The Guaranteed Royalty for each subsequent License Year shall be payable in four (4) consecutive equal quarterly installments on the first day of each calender quarter during each such License Year as set forth in paragraph S.9 of the Schedule.

b. RENEWAL TERMS:

Licensee shall pay a guaranteed minimum trademark royalty for License Years 4 through 7 as set forth in Paragraph S.11 of the Schedule. The Guaranteed Royalty for a License Year will credited only against Earned Royalty during the same License Year.

c. EARNED ROYALTY:

(i) In consideration of the license granted and the marketing services to be performed by Licensor hereunder, Licensee shall pay to Licensor a royalty equal to five percent (5%) of Net Sales ("Earned Royalty").

(ii) The Earned Royalty hereunder shall be accounted for and paid quarterly within thirty (30) days after the close of each quarter during each term of this Agreement (or portion thereof in the event of prior termination for any reason). The Earned Royalty payable for each quarter during each License Year shall be computed on the basis of Net Sales during such quarter, with a credit for any Guaranteed Royalty and Earned Royalty payments theretofore made to Licensor for said License Year. No payment of Earned Royalty for any License Year in excess of payments of Guaranteed Royalty for the same License Year shall be credited against the Guaranteed Royalty due to Licensor for any other License Year.

(iii) As used in this Agreement, the term "Net Sales" means the invoice price charged by Licensee for Articles shipped by Licensee less (w) refunds, credits and allowances actually allowed to customers for returned Articles unrelated to mark-downs and advertising, (x) customary and usual trade discounts (including volume discounts, warehouse allowances, new store discounts, but excluding anticipation discounts, which shall not exceed eight (8%) percent of the

wholesale price, (y) discounts resulting from requests by retailers to increase the wholesale price typically charged to similar customers (the "Wholesale Price") so that a discount can be given off such increased wholesale price (an "Inflated Discount"), such Inflated Discount not to exceed 8% of the Wholesale Price) afforded to and actually taken by customers against payment for Articles, and (z) taxes and freight separately listed.

d. STATEMENTS:

Within thirty (30) days after the end of each quarter during each License Year, Licensee shall furnish to Licensor or its nominee a complete and accurate statement as identified in Exhibit "A" in a form acceptable to Licensor and certified to be true by the Chief Financial Officer of Licensee showing for the preceding quarter and the License Year through such quarter: a listing of Licensee's accounts in the Territory and the units and description of all of Articles distributed and sold to each such account or otherwise disposed of by Licensee; the computation of Net Sales on all such sales; and the amount of Earned Royalties due and payable thereon in accordance with the provisions of Paragraph 4.c. hereof.

5. BOOKS AND RECORDS; AUDITS.

a. Licensee shall prepare and maintain complete and accurate books of account and records covering all transactions arising out of or relating to this Agreement. Licensor and its duly authorized representatives have the right, during regular business hours but not more often than twice during any License Year for the duration of this Agreement and for three (3) years thereafter, to audit said books of account and records and examine all other documents and material in the possession or under the control of Licensee with respect to the subject matter and the terms of this Agreement. Licensor shall use its best efforts to conduct such audit in manner as not to interfere with Licensee's normal business activities. Licensor and each auditor acting on its behalf shall treat all information as confidential.

b. If, as a result of any audit of Licensee's books and records, it is shown that Licensee's payments to Licensor were less than the amount which should have been paid, Licensee shall make all payments required to be made to eliminate any discrepancy revealed by said audit within thirty (30) days after Licensor's demand therefor and, if the shortfall for any License Year is shown to be in an amount equal to five percent (5%) or more of the payments actually made with respect to sales occurring during such License Year, Licensee shall reimburse Licensor for the cost of such audit.

6. LICENSING MEETINGS.

Licensee agrees to attend licensing meetings at Licensee's cost and expense which will be held no more than four times a year.

7. APPROVAL OF ARTICLES AND PACKAGING AND RELATED MATERIALS.

a. The contents and workmanship of Articles shall be at all times of High Quality (as hereinafter defined) and Articles shall be distributed and sold with packaging and sales promotion materials appropriate for such Products. The styles, designs, packaging, contents, workmanship and quality of all Articles must be approved by Licensor in writing prior to the distribution or sale thereof, unless such styles, designs, packaging, contents, workmanship and quality do not vary materially from styles, designs, packaging, contents, workmanship and quality previously approved in writing by Licensor. Licensor has the right to take all reasonable actions which it deems necessary to ensure that Articles manufactured or sold hereunder are consistent with the reputation and prestige of the Licensed Mark as a designation for high quality products. "High Quality" means the highest quality available given the price point of the Articles. In order to insure that the Articles are of a High Quality, Licensee shall deliver one (1) garment from each style to Licensor.

b. Licensee understands and agrees that all Articles and other items bearing the Licensed Mark or intended for use in connection with Articles (including, but not limited to, cartons, containers, labels, wrappers, packages and other inner and outer packaging materials, fixtures, displays, artwork, printing, advertising, sales, marketing and promotional materials - collectively hereinafter called "Packaging and Related Materials") must be approved in writing in advance by Licensor or its nominee which approval shall not be unreasonably withheld or delayed. Licensee shall submit or make available to Licensor, for Licensor's review all initial sketches or photographs and for Licensor's prior written approval, samples, prototypes or equivalents of the Articles and Packaging and Related Materials and actual manufactured or produced Articles and Packaging and Related Materials in its final form (collectively, "Final Goods") as intended to be sold or used by Licensee in connection with Articles, as the case may be; provided however, that Licensor may not withhold its approval of Final Goods in the event that they are substantially similar to the prototypes previously submitted to Licensor. In the event Licensor fails to signify its approval or disapproval of any Article or Packaging and Related Material within five (5) days of Licensor's receipt of same, Licensor shall be deemed to have approved same. Nonmaterial changes to previously approved Articles (such as the addition of a new color) shall not require the prior written approval of Licensor.

c. To ensure that all Articles and Packaging and Related Materials are constantly maintained in conformance with the previously approved samples, Licensee shall, within seven (7) days of a demand from Licensor, dispatch to Licensor, at Licensee's expense, for inspection, reasonably representative samples of Articles and Packaging and Related Materials that Licensee is using, manufac turing, selling, distributing or otherwise disposing of under the terms of this Agreement. In addition, Licensee shall take such action as may be reasonably required to ensure that Licensor and its designated agents and representatives shall have the right to enter upon and inspect, at all reasonable hours in the day but upon reasonable advance notice, any office, factory, warehouse or other facility where any Articles or Packaging and Related Materials are designed, manufactured, stored or otherwise dealt with and to take, without payment, such samples of

Articles and Packaging and Related Materials as Licensor reasonably requires for the purpose of inspection.

d. Articles and Packaging and Related Materials that are not approved by Licensor shall not be sold, distributed or otherwise dealt with by Licensee unless the Licensed Mark is removed to the satisfaction of Licensor. If the Licensed Mark cannot be removed to the reasonable satisfaction of Licensor, all such Articles and Packaging and Related Materials shall be destroyed by Licensee with, if Licensor so requests, an appropriate certificate of destruction provided to Licensor. Sales or use by Licensee of unapproved Articles or Packaging and Related Materials shall constitute an incurable event of default by Licensee under this Agreement.

8. THE LICENSED MARK.

a. Licensee shall not use the Licensed Mark, in whole or in part, as a corporate name or trade name. Licensee shall not join any name or names with the Licensed Mark so as to form a new mark, except that during the term of this Agreement Licensee may conduct business contemplated by this Agreement under the name "Steve Madden Sportswear". Except as provided herein, Licensee shall not use any name or names in connection with the Licensed Mark in any advertising, publicity, labeling, packaging or printed matter of any kind utilized by Licensee in connection with Articles, unless and until Licensor consents thereto in writing.

b. Licensee shall:

(i) use the Licensed Mark in the Territory strictly in accordance with the legal requirements obtaining therein. Licensee shall cooperate fully with Licensor in preparing and causing to be recorded in every jurisdiction where applicable Registered User agreements and all other documents which may be necessary or desirable to evidence, protect and implement the rights of Licensor pursuant to this Agreement. Upon expiration or termination of this Agreement for any reason whatsoever, Licensee shall execute and file documents, as required by Licensor, terminating any and all Registered User agreements and other documents regarding the Licensed Mark or, at Licensor's option shall, and hereby does, authorize and empower Licensor to terminate all Registered User or other documents regarding the Licensed Mark on Licensee's behalf and in Licensee's name.

(ii) in the event any designs developed by Licensor for Articles may be made the subject of patent, trademark or copyright protection, Licensor shall have the right, at its own expense, to file applications therefor, and shall be the exclusive owner of such rights. Licensee shall cooperate with Licensor or its designers in obtaining and perfecting such rights including providing Licensor or its designers with copies of documents, sketches, renderings or the like normally prepared by Licensee in connection with the manufacture of Articles and executing such documents as may reasonably be required.

(iii) affix to all Articles and Packaging and Related Material such trademark and copyright notices as Licensor reasonably may direct;

(iv) manufacture, sell, distribute or otherwise deal with Packaging and Related Materials solely in connection with Articles; and

(v) not cause or grant permission to any third parties to acquire any copyright or other proprietary right in connection with any word, device, design or symbol used by Licensee in connection with any Articles or Packaging and Related Materials.

c. Licensee acknowledges that, as between Licensor and Licensee, Licensor is the owner of all right, title and interest in and to the Licensed Mark in the Territory in any form or embodiment thereof and is also the owner of the goodwill attached or which shall become attached to the Licensed Mark in connection with the business and goods in relation to which the same has been, is or shall be used. Sales by Licensee shall be deemed to have been made by Licensor for purposes of trademark registration and all uses of the Licensed Mark by Licensee shall inure to the benefit of Licensor. Licensee shall not, at any time, do or suffer to be done any act or thing which may in any way adversely affect any rights of Licensor in and to the Licensed Mark or any registrations thereof or which, directly or indirectly, may reduce the value of the Licensed Mark or detract from its reputation.

d. Licensee never shall challenge Licensor's ownership of or the validity of the Licensed Mark or any application for registration thereof, or any trademark registration thereof, or any rights of Licensor therein.

9. RIGHT TO SUBCONTRACT AND LISTS OF SOURCES AND CUSTOMERS:

a. Licensee may subcontract the manufacture of any Article (or portion of any Article) provided Licensee obtains in writing from any and all such subcontractors an agreement in writing, as attached hereto in Exhibit "B" and with a copy to Licensor, that no use of the Licensed Mark will be made for any purpose other than supplying Articles solely to Licensee.

b. Together with the final quarterly statement submitted for each License Year pursuant to Paragraph 4.d. hereof and at any other time so requested by Licensor, Licensee shall provide Licensor with an updated list of the names and addresses of all manufacturing sources, subcontractors, suppliers, dealers, wholesalers, retailers and customers who have been engaged in the manufacture, sale, distribution or other dealings with the Articles or Packaging and Related Materials during the term of the Agreement. Such list shall include customers to whom Articles or Packaging and Related Materials have been delivered after the expiration or termination of this Agreement.

c. It is the intent of this Agreement that, insofar as practical, Licensee shall use its best efforts to at all times be able to fulfill its orders for Articles

promptly and yet not have an excessive inventory at the time of the termination or expiration of the License. Within ten (10) days after a request by Licensor, which request may not be made with unreasonable frequency during each License Year, Licensee will furnish Licensor with a statement signed by the Chief Financial Officer of Licensee, setting forth in detail the quantities of finished Articles then on hand and work in progress inventories of Articles.

10. COMPETITIVE BRANDS:

a. Licensee and any affiliates thereof shall not during the term of this Agreement enter into any other license which would grant Licensee or any affiliate the right to manufacture, distribute, advertise, promote, sell or deal with in any way in the Territory any Products marketed, merchandised, distributed and known to the general public as a junior or contemporary fashion brand within the Channel of Distribution without Licensor's prior written consent. Subject to paragraph 10(b) below, nothing herein shall limit the right of Licensee to continue to manufacture retailer owned or licensed products so long as Licensee serves only as the manufacturer of such products.

b. Within one hundred five (105) days following the date on which Licensee ships new Articles introduced to the retail market, Licensee shall not use designs or styles unique to such Articles on or in connection with any other brand or product which consumers identify or associate with Licensor and/or the Licensed Mark on or in connection with any other brand or product. In addition, Licensee shall not during or after the terms of this Agreement use Protected Designs on or in connection with any other brand or product. Also, upon expiration or termination of this Agreement, Licensee will assign to Licensor the beneficial ownership of all rights that Licensee has acquired or may acquire in such designs or styles. "Protected Designs" shall mean any designs or styles that are not within the public domain or which would not be entitled to legal protection against use by other manufacturers or distributors of apparel, other than Licensee.

11. ADVERTISING.

a. ADVERTISING FEE:

Licensee shall pay to Licensor an amount (the "Advertising Fee") equal to two percent (2%) of Net Sales during the term of the Agreement, as specified in Paragraph S.12. of the Schedule, which Advertising Fee shall be used by Licensor in connection with its national and regional advertising and promotion of the Licensed Mark. The Advertising Fee shall be paid to Licensor at the time quarterly statements are to be delivered to Licensor in accordance with provisions of Paragraph 3.c. hereof and shall be based on Net Sales during the quarter to be covered by each such statement. Licensor shall use the Articles in its national advertising campaigns subject to the creative and marketing discretion of Licensor and its advertising advisors.

b. COOPERATIVE ADVERTISING:

Licensee agrees to offer and pay one percent (1.0%) of its Net Sales for cooperative advertising to major retailers and provide Licensor with proof of such payments and copies of the actual cooperative advertising materials and/or advertisements.

12. INDEMNITY; INSURANCE.

a. Licensee hereby saves and holds Licensor harmless of and from and indemnifies it against any and all losses, liability, damages and expenses (including reasonable attorneys' fees and expenses) which Licensor may incur or be obligated to pay, or for which it may become liable or be compelled to pay in any action, claim or proceeding against it, for or by reason of any acts, whether of omission or commission, that may be committed or suffered by Licensee or any of its servants, agents or employees in connection with Licensee's performance of this Agreement. The provisions of this paragraph and Licensee's obligations hereunder shall survive the expiration or termination of this Agreement.

b. Licensor hereby saves and holds Licensee harmless of and from and indemnifies it against any and all losses, liability, damages and expenses (including reasonable attorneys' fees and expenses) which Licensee may incur or be obligated to pay or for which it may become liable or be compelled to pay in any action, claim or proceeding against it, for or by reason of any acts, whether of omission or commission, that may be committed or suffered by Licensor or any of its servants, agents or employees in connection with Licensor's performance of this Agreement. The provisions of this paragraph and Licensor's obligations hereunder shall survive the expiration or termination of this Agreement.

c. The indemnified party shall give the indemnifying party prompt notice of, and full cooperation with respect to, the alleged claim brought or asserted in request of which indemnification under this Agreement is sought; PROVIDED, HOWEVER, that any delay or failure to provided the indemnification notice shall relieve the indemnified party of its obligations hereunder only in the event, and to the extent, that a court of competent jurisdiction shall finally determine that the indemnifying party shall have been materially prejudiced by reason of such failure or delay.

d. Licensee shall procure and maintain at its own expense in full force and effect at all times during which Articles are being sold, a public liability insurance policy including product liability coverage with respect to Articles, as well as contractual liability coverage with respect to this Agreement, with a limit of liability of not less than $2,000,000.00. Such insurance policy shall be written for the benefit of both Licensee and Licensor and shall provide for at least ten (10) days prior written notice to said parties of the cancellation or substantial modification thereof. Nothing contained in this Paragraph 12.d. shall deemed to limit in any way the indemnification provisions of Paragraph 12 hereof.

13. DEFAULT.

(a) The occurrence of any of the following events shall constitute an event of default by Licensee under this Agreement, subject to the procedures and remedies set forth herein:

(i) If Licensee defaults in the performance of any of its material obligations provided for in this Agreement and such failure continues for a period of ten (10) days after receipt of written notice thereof; or

(ii) If Licensee shall have failed to deliver to Licensor or to maintain in full force and effect the insurance referred to in Paragraph 12 d. hereof and such failure continues for a period of ten (10) days after receipt of written notice thereof; or

(iii) If Licensee shall fail to make any payments due hereunder and such failure continues for a period of seven (7) days after receipt of written notice thereof; or

(iv) If Licensee shall fail to deliver any of the statements hereinabove referred to when due hereunder and such failure continues for a period of fifteen (15) days after receipt of written notice thereof; or

(v) If Licensee shall materially fail to comply with any laws, regulations or voluntary industry standards or if any governmental agency or other body, office or official vested with appropriate authority finds that the Product(s) are harmful or defective in any way, manner or form, or are being manufactured, sold or distributed in contravention of applicable laws, regulations or standard, or in a manner likely to cause harm, and such failure could have a material adverse effect on the value of the Licensed Mark and such failure continues for a period of ten (10) days after receipt of written notice thereof; or

(vi) If Licensee shall be unable to pay its debts when due, or shall make any assignment for the benefit of creditors, or shall file any petition under the bankruptcy or insolvency laws or any jurisdiction, county or place, or shall have or suffer a receiver or trustee to be appointed for its business or property and such receiver or trustee, if involuntarily appointed, shall not be removed by an order within thirty (30) days following the date of appointment, or be adjudicated a bankrupt or an insolvent; or

(vii) If Licensee shall manufacture, sell or distribute, whichever first occurs, any of the Articles without the prior written approval of Licensor; or

(viii) If Licensee undergoes a substantial change in management which is not reasonably acceptable to Licensee; or

(ix) If Licensee delivers or sells Articles outside the Territory or knowingly sells Articles to a third party for delivery outside the Territory.

(b) In the event any of these defaults occur, Licensor shall give notice of termination in writing to Licensee by certified mail. Licensee shall have ten (10) days from the date of receiving notice in which to correct any of these defaults (except subdivisions (vi) (except for the thirty (30) day cure period in the event of an involuntary bankruptcy proceeding), (vii), (viii) and (ix) above which are not curable), and failing such, this Agreement shall thereupon immediately terminate, and any and all payments then or later due from Licensee hereunder shall then be promptly due and payable and no portion of prior payments shall be repayable to Licensee.

Further, if Licensee fails to make any payment due hereunder, Licensee shall pay interest on the unpaid balance thereof from and including the date such payment becomes due until the date the entire amount is paid in full at a rate equal one percent (1%) per month.

14. RIGHTS ON EXPIRATION OR TERMINATION.

a. In the event of termination in accordance with Paragraph 13 hereof, (except for a default arising from a breach of paragraph 13(a)(viii)) Licensee shall pay to Licensor, (i) the Earned Royalty and the Guaranteed Royalty then owed to it and (ii) the lesser of (x) the Guaranteed Royalty remaining unpaid for the balance of the then current term of this Agreement (y) the Guaranteed Royalty for the two (2) year period following the date of termination and (z) the Guaranteed Royalty for the period of time following commencing of the date of termination and ending on the date on which Licensor receives the first payment from a subsequent licensee with respect to the sale of the Articles. In addition, Licensee shall be liable for an amount equal to any other actual damages Licensor may have suffered on account of such termination or the acts or omissions from which it resulted. In the event that this Agreement is terminated by Licensor pursuant to paragraph 13(a)(viii), Licensee shall not be required to make any payments to Licensor contemplated by this paragraph 14(a).

b. Notwithstanding any termination in accordance with Paragraph 13 hereof, Licensor shall have and hereby reserves all rights and remedies which it has, or which are granted to it by operation of law, to enjoin the unlawful or unauthorized use of the Licensed Mark (any of which injunctive relief may be sought in the courts, notwithstanding the arbitration provisions of this Agreement, and also may be sought prior to or in lieu of termination), to collect royalties payable by Licensee pursuant to this Agreement and to be compensated for damages for breach of this Agreement.

c. If this Agreement expires or is terminated other than by Licensor pursuant to Paragraph 13 hereof, Licensee shall be entitled, for an additional period of six (6) months only, on a non-exclusive basis, to sell and dispose of its

inventory of Articles in the Territory. Such sales shall be made subject to all of the provisions of this Agreement and to an accounting for and the payment of Earned Royalties thereon. Such accounting and payments shall be due within twenty (20) days after the close of each month during the said six (6) month period.

d. Except as specifically provided in Paragraph 14c. hereof, on the expiration or termination of this Agreement, all of the rights of Licensee under this Agreement shall terminate forthwith and shall revert immediately to Licensor, all Earned Royalties on sales theretofore made shall become immediately due and payable and Licensee shall discontinue forthwith all use of the Licensed Mark or any variation or simulation thereof and promptly shall transfer to Licensor, free of charge, all registrations, filings and rights with regard to the Licensed Mark which it may have possessed at any time. In addition, Licensee thereupon shall deliver to Licensor, free of charge, all samples of Articles and all sketches and other material in its possession which were used in connection with Articles and all Packaging and Related Material in its possession with the Licensed Mark thereon. After the expiration or termination of this Agreement and subject to the provisions of paragraph 10(b), Licensee shall not use or permit others to use any of said sketches and other material, or any variations or simulations thereof, in connection with Products or any other merchandise.

15. FORCE MAJEURE

Neither party hereto shall be liable to the other for delay in any performance or for the failure to render any performance under the Agreement when such delay or failure is by reason of any cause or causes beyond its control, including, without limitation, any present or any future statute, law, ordinance, regulation, order, judgment or decree, whether legislative, executive or judicial (whether or not constitutional), act of God, earthquake, flood, fire, epidemic, accident, explosion, casualty, lockout, boycott, strike, labor controversy (including but not limited to threat of lockout, boycott or strike), riot, civil disturbance, war or armed conflict (whether or not there has been an official declaration of war or official statement as to the existence of a state of war), act of a public enemy, embargo or delay of a common carrier, or, in the case of Licensee, the inability without fault on Licensee's part to obtain sufficient material, labor, transportation, power or other essential commodity required in the conduct of Licensee's business. The party claiming to be so effected shall give notice to the other party promptly after it learns of the occurrence of said event and of the adverse results thereof. Such notice shall set forth the nature and extent of the event. The delay or failure shall not be excused unless such notice is so given. Notwithstanding any other provision of this Agreement, either party may terminate the Agreement if the other party is unable to perform any or all of its obligations hereunder for a period of three (3) months by reason of said event.

16. NOTICE

Any notice, communication or legal service of process required or permitted under this Agreement shall be effective when personally delivered in writing; or on the date when the notice, service or communication is telexed or telecopied (with a confirmation copy to be sent by mail); or the day after the notice, service or communication is sent by overnight air courier service (e.g., Federal Express); or three (3) days after the date of mailing. All notices shall be sent to the parties at the notice addresses listed below or to such other persons and notice addresses as may be designated in writing by the parties to each other.

TO LICENSOR: Steven Madden, Inc.
52-16 Barnett Avenue
Long Island City, NY 1104
Attention: President
Telephone: (718) 446-1800
Facsimile: (718) 446-5599

with a copy to: Bernstein & Wasserman, LLP
950 Third Avenue
New York, NY 10022
Attention: Alan N. Forman, Esq.
Telephone: (212) 826-0730
Facsimile: (212) 371-4730

TO LICENSEE: Winer Industries, Inc.
404 Grand Street
Paterson, NJ 07505
Telephone: (973) 684-0800
Facsimile: (973) 684-7424

with a copy to: Schiffman, Berger, Abraham, Kaufman & Ritter, P.C.
Three University Plaza, Suite 410
P.O. Box 568
Hackensack, N.J. 07602-0568
Attn: Richard G. Berger, Esq.
Telephone: (201) 488-2600
Facsimile: (201) 488-5059

17. ASSIGNABILITY

The performance of Licensee hereunder is of a personal nature and, therefore, neither this Agreement nor the license or other rights granted hereunder may be assigned, sublicensed or transferred by Licensee without Licensee's prior written consent which consent shall not be unreasonably withheld or delayed. Any attempted assignment, sublicense or transfer, whether voluntary or by operation

of law, directly or indirectly, without such prior written consent of Licensor shall be void and of no force or effect.

18. NO JOINT VENTURE

Nothing herein contained shall be construed to place the parties in the relationship of partners or joint venturers, and Licensee shall have no power to obligate or bind Licensor, its subsidiaries and affiliates in any manner whatsoever.

19. BINDING EFFECT

This Agreement shall inure to the benefit of and shall be binding upon the parties, their respective successors, Licensor's transferees and assigns and Licensee's permitted transferees and assigns.

20. ARBITRATION

Except as specifically set forth in this Agreement, any and all disputes, controversies and claims arising out of or relating to this Agreement or concerning the respective rights or obligations hereunder of the parties hereto except disputes, controversies and claims relating to or affecting in any way Licensor's ownership of or the validity of the Licensed Mark or any registration thereof, or any application for registration thereof (hereinafter referred to as "Licensed Mark Disputes") shall be settled and determined by arbitration in New York, New York before the Commercial Panel of the American Arbitration Association in accordance with and pursuant to the then existing Commercial Arbitration Rules. The arbitrators shall have the power to award specific performance or injunctive relief and reasonable attorneys' fees and expenses to any party in any such arbitration and the courts shall have similar power with regard to that injunctive relief sought by Licensor pursuant to Paragraph 14.b. hereof and with regard to Licensed Mark Disputes. However, in any arbitration proceeding arising under this Agreement, the arbitrators shall not have the power to change, modify or alter any express condition, term or provision hereof, and to that extent the scope of their authority is limited. The arbitration award shall be final and binding upon the parties and judgment thereon may be entered in any court having jurisdiction thereof. The service of any notice, process, motion or other document in connection with an arbitration under this Agreement or for the enforcement of any arbitration award hereunder may be effectuated in the manner in which notices are to be given to a party pursuant to Paragraph 16 hereof.

21. FUTURE LICENSES

Except as may otherwise be provided, in this Agreement, Licensor shall have the right, exercisable at any time, to negotiate and enter into agreements with third parties pursuant to which it may grant a license to use the Licensed Mark in connection with the manufacture, distribution and sale of Products in the Territory or provide consultation and design and marketing services with respect to Products in the Territory, but only if, pursuant to such third party agreements, the

collections of such Products are not shipped prior to the termination of this Agreement. Nothing herein contained shall be construed to prevent any such third party licensee from showing such Products and accepting orders therefor prior to the termination hereof. However, the first seasonal collection of Products bearing the Licensed Mark sold by any such third party licensee shall be a collection after the final collection sold by Licensee hereunder. Licensor hereby grants Licensee a right of first negotiation with respect to a license of the Articles in and for the territory of Canada, and the parties agree that they will negotiate the terms of a licensing agreement in good faith with respect to such territory. In addition, in the event that Licensor elects to sell "missy" styles or sizes under the Licensed Mark, Licensor hereby grants Licensee a right of first negotiation with respect to a license of the Licensed Mark for the sale of such "missy" products in the Territory.

22. APPLICABLE LAW

This Agreement shall be construed and interpreted in accordance with the laws of the State of New York applicable to agreements made and to be performed in said State.

23. NO WAIVER

No waiver by either party, whether express or implied, of any provision of this Agreement, or of any breach default thereof, shall constitute a continuing waiver of such provision or of any other provision of this Agreement. Acceptance of payments by Licensor shall not be deemed a waiver by Licensor of any violation of or default under any of the provisions of this Agreement by Licensee.

24. INVALIDITY

If any provision or any portion of any provision of this Agreement shall be held to be void or unenforceable, the remaining provisions of this Agreement and the remaining portion of any provision held void or unenforceable in part shall continue in full force and effect.

25. ENTIRE AGREEMENT

This Agreement contains the entire understanding and agreement between the parties hereto with respect to the subject matter hereof, supersedes all prior oral or written understandings and agreements relating thereto and may not be modified, discharged or terminated, nor may any of the provisions hereof be waived, orally. This Agreement shall be construed without regard to any presumption or other rule requiring construction against the party causing this Agreement to be drafted. If any words or phrases in this Agreement shall have been stricken out or otherwise eliminated, whether or not any other words or phrases have been added, this Agreement shall be construed as if those words or phrases were never included in this Agreement, and no implication or inference shall be drawn from the fact that the words or phrases were so stricken out or otherwise eliminated.

26. CONFIDENTIALITY

A confidential relationship is created by this Agreement. Except in connection with their respective rights and obligations under this Agreement, Licensor, Licensee and their respective affiliates, employees, attorneys, and accountants shall keep confidential and not take or use for its or their own purpose confidential and proprietary business information of the other and terms of this Agreement, unless with the prior written consent of the other parties hereto or pursuant to, or as may be required by law, or in connection with regulatory or administrative proceedings and only then with reasonable advance notice of such disclosure to the other parties thereto.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

STEVEN MADDEN, LTD.

By: /s/ RHONDA J. BROWN

Name: Rhonda J. Brown
Title: Chief Operating Officer

WINER INDUSTRIES, INC.

By: /s/ ROBERT S. WINER

Name: Robert S. Winer
Title: President

EXHIBIT "A"

QUARTERLY LICENSEE TRADEMARK ROYALTY
AND ADVERTISING FEE REPORT

Licensee: Winer Industries, Inc.

For Quarter ending: _______________

Gross Sales _______________

Discounts: _______________
Allowances: _______________

Credits: _______________

Returns: _______________

Net Sales: ===============

Guaranteed Minimum Payment: _______________

Sales Royalty @ 5% _______________

Advertising Fee @ 2% _______________

Total Payment Due: _______________

Total Payment Remitted: _______________

Authorized Signature:______________ Date:___________________

EXHIBIT "B"

Dated ___________, 199_

Gentlemen:

This letter will serve as notice to you that pursuant to the License Agreement dated as of ______________, between you and ______________, we have been engaged as the manufacturer for the connection with the manufacture of the Articles defined in the aforesaid License Agreement. We hereby acknowledge that we have received a copy of the quality, trademark notice, and other relevant terms and conditions set forth in said License Agreement which are applicable to our function as manufacturer of the Articles(s), and we agree to only dispose of the Articles to _________________. It is understood that this engagement is on a royalty free basis.

Sincerely,

AMENDED EMPLOYMENT AGREEMENT

AMENDED EMPLOYMENT AGREEMENT, dated as of July 29, 1997, by and between STEVEN MADDEN, LTD., a New York corporation with offices at 52-16 Barnett Avenue, Long Island City, N.Y. 11104 (the "Corporation"), and STEVEN MADDEN, an individual residing at 300 Mercer Street New York, New York 10003 (the "Executive").

WITNESSETH

WHEREAS, Corporation has entered into an employment agreement with Executive dated as of September 1, 1993 (the "Prior Employment Agreement"), which Corporation and Executive desire to amend;

WHEREAS, Corporation desires to secure the services of Executive upon the terms and conditions hereinafter set forth;

WHEREAS, Executive desires to continue to render services to Corporation upon the terms and conditions hereinafter set forth; and

WHEREAS, in partial consideration of the execution of this Agreement and the performance by Executive of his duties hereunder, the Corporation has granted the Executive options to purchase up to 500,000 shares of Common Stock of the Corporation par value $.000l per share.

NOW, THEREFORE, the parties mutually agree as following:

Section 1. EMPLOYMENT. Corporation hereby employs Executive and Executive hereby accepts such employment, as an executive of Corporation, subject to the terms and conditions set forth in this Agreement

Section 2. DUTIES. Executive shall serve as the President, Chief Executive Officer and Chairman of the Board of Directors of Corporation and shall properly perform such duties as may be assigned to him from time to time by the Board of Directors of the Corporation. If requested by Corporation, Executive shall serve on any committee of Corporation's Board of Directors without additional compensation. During the term of this Agreement, Executive shall devote substantially all of his business time to the performance of his duties hereunder unless otherwise authorized by the Board of Directors.

Section 3. TERM OF EMPLOYMENT.

(a) The term of Executive's employment, unless sooner terminated as provided herein, shall be for a period of ten (10) years commencing January 1, 1998 (the "Term").

Section 4. COMPENSATION OF EXECUTIVE.

4.1 SIGNING BONUS; SALARY. Upon execution of this Agreement, Corporation shall pay to Executive a signing bonus of $200,000. Corporation shall pay to Executive the following base salary ("Base Salary") for his services hereunder, less such deductions as shall be required to

be withheld by applicable law and regulations: Two Hundred Seventy-Five Thousand ($275,000) Dollars for each twelve (12) month period commencing January 1, 1998 and ending December 31, 1999; Three Hundred Thousand ($300,000) Dollars for the twelve (12) month period commencing January 1, 2000; and, for each 12-month period thereafter, an amount equal to the Base Salary for the previous 12-month period plus ten percent (10%) of such Base Salary.

4.2 TIME OF PAYMENT. All salaries payable to Employee shall be paid at such regular weekly, biweekly or semi-monthly time or times as the Corporation makes payment of its regular payroll in the regular course of business.

4.3 DISCRETIONARY BONUS. Executive shall be entitled to such Bonus[es](in cash, capital stock or other property) (the "Discretionary Bonus") as the Board of Directors of the Corporation may determine from time to time in its sole discretion.

4.4 EXPENSES. In addition to those expenses expressly set forth herein, Corporation shall provide to Executive a Fifty Thousand Dollar ($50,000) annual non-accountable expense allowance. Additionally, Corporation shall, at the direction of Executive, either reimburse Executive for, or directly pay the costs of, membership dues for any professional organizations that Executive chooses to join.

4.5 AUTOMOBILE ALLOWANCE. With respect to Executive's use of an automobile in connection with the performance of his duties hereunder, Corporation shall, at the direction of Executive, either reimburse Executive for, or directly pay the costs of, the use of an automobile during the Term of this Agreement and all usual expenditures in connection therewith; i.e., fuel, insurance, parking, customary maintenance and repairs, etc. The type of automobile, which may be changed during the Term and shall not have a suggested

retail selling price in excess of Fifty Thousand Dollars ($50,000), shall be selected by Executive.

4.6 BENEFITS. Executive shall be entitled to participate in such pension, profit sharing, group insurance, option plans, hospitalization, and group health and benefit plans and all other benefits and plans as Corporation provides to its senior executives.

Section 5. TERMINATION.

5.1 DEATH. This Agreement shall terminate upon the death of Executive; PROVIDED, HOWEVER, that Corporation shall continue to pay to the estate of Executive the appropriate salary as set forth in Section 4.1 hereof for the twelve (12) month period immediately subsequent to the date of Executive's death.

5.2 TERMINATION FOR CAUSE OR TOTAL DISABILITY; RESIGNATION. In the event Executive is discharged "For Cause" or due to his "Total Disability" (as those terms are defined below) or in the event Executive resigns (other than pursuant to Section 5.5 hereof), then upon such occurrence, this Agreement shall be deemed terminated and Corporation shall be released from all obligations to Executive with respect to this Agreement, except obligations accrued prior to such termination date and as provided in Section 6.2 hereof.

5.3 TERMINATION OTHER THAN FOR CAUSE OR TOTAL DISABILITY. In the event Executive

is discharged other than "For Cause" or due to his "Total Disability," then such termination shall only be effective if prior to the date hereof, the Corporation shall have delivered to Executive the balance of his salary that would have been paid by the Corporation pursuant to Section 4.1 hereof over the full Term of the Agreement if the Corporation had not terminated this Agreement. Such amount shall be payable in two (2) installments as follows: (i) fifty (50%) percent of the amount due pursuant to the terms of this Section 5.3 upon termination of the Agreement and (ii) fifty (50%) percent in equal annual installments beginning on the January 1 immediately following such termination and each January 1 thereof until January 1, 2008.

5.4 "FOR CAUSE". As used herein, the term "For Cause" shall mean:

(a) a deliberate and material breach by Executive of his duties and responsibilities under this Agreement that results in material harm to Corporation which breach is committed without reasonable belief that such breach is in, or not contrary to, the best interests of Corporation, and is not remedied within thirty (30) days after receipt of written notice from Corporation specifying such breach; or

(b) Executive's plea of guilty or nolo contendere to, or non-appealable conviction of, a felony, which conviction or plea causes material damage to the reputation or financial position of Corporation.

5.5 TERMINATION UPON CHANGE OF CONTROL.

(a) If a Change of Control (as defined below) occurs without Executive's prior written consent, Executive shall have the right to terminate this Agreement. At least ten (10) days prior to any such proposed Change of Control, Corporation shall notify Executive of its intention to effect such Change of Control, and Executive shall thereupon have five (5) days from the actual receipt of such notice to give notice of his intention to terminate this Agreement in the event of the Change of Control. If, notwithstanding such notice by Executive, Corporation proceeds with such Change of Control, this Agreement shall be deemed terminated as of the effective date of the event constituting the Change of Control and Executive shall receive in cash, within ten (10) days of termination, (i) any compensation accrued and unpaid pursuant to Section 4 of this Agreement, (ii) an amount equal to the balance of Executive's salary that would have been paid by Corporation pursuant to Section 4.1 hereof over the full Term of this Agreement if the Agreement had not been terminated, and (iii) an amount equal to Executive's bonus, if any, for the preceding 12-month period ended December 31, multiplied by the remaining years (including any fractional years) left under this Agreement since the date such bonus was determined by the Board of Directors. In the event that any payment (or portion thereof) to Executive under this Section 5.5 is determined to constitute an "excess parachute payment," under Sections 280G and 4999 of the Internal Revenue Code of 1986, as amended, the following calculations shall be made:

(i) The after-tax value to Executive of the payments under this Section 5.5 without any reduction; and

(ii) the after-tax value to Executive of the payments under this Section 5.5 as reduced to the maximum amount (the "Maximum Amount") which may be paid to Executive without any portion of the payments constituting an "excess parachute payment".

If after applying the agreed upon calculations set forth above, it is determined that the after-tax value determined under clause (ii) above is greater than the after-tax value determined under clause (i) above, the payments to Executive under this Section 5.5 shall be reduced to the Maximum Amount.

(b) If a Change of Control occurs, regardless of whether Executive has consented to such Change of Control, Executive shall have the right to resign for Good Reason (as defined below).

5.6 "CHANGE OF CONTROL". As used herein, the term "Change of Control" shall mean:

(a) When any "person" as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as used in Section 13(d) and 14(d) thereof including a "group" as defined in Section 13(d) of the Exchange Act, but excluding Corporation or any subsidiary or any affiliate of Corporation or any employee benefit plan sponsored or maintained by Corporation or any subsidiary of Corporation (including any trustee of such plan acting as trustee), becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) of securities of Corporation representing 20% or more of the combined voting power of Corporation's then outstanding securities; or

(b) When, during any period of twenty-four (24) consecutive months, the individuals who, at the beginning of such period, constitute the Board of Directors (the "Incumbent Directors") cease for any reason other than death to constitute at least a majority thereof provided, however, that a director who was not a director at the beginning of such 24-month period shall be deemed to have satisfied such 24-month requirement (and be an Incumbent Director) if such director was elected by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors either actually (because they were directors at the beginning of such 24-month period) or through the operation of this proviso; or

(c) The occurrence of a transaction requiring stockholder approval for the acquisition of Corporation by an entity other than Corporation or a subsidiary or an affiliated company of Corporation through purchase of assets, or by merger, or otherwise.

5.7 "GOOD REASON" As used herein, the term "Good Reason" shall mean the occurrence of any of the following:

(a) the assignment to Executive of any duties inconsistent with his positions, duties, responsibilities and status with Corporation as contemplated hereunder, or any removal of Executive from any positions or offices Executive held as contemplated hereunder, except in connection with the termination of Executive's employment by Corporation For Cause or on account of Total Disability pursuant to

the requirements of this Agreement;

(b) a reduction by Corporation of Executive's Base Salary as in effect as contemplated hereunder, except in connection with the termination of the Executive's employment by Corporation For Cause or due to Total Disability pursuant to the requirements of this Agreement;

(c) any termination of Executive's employment by Corporation during the Term that is not effected pursuant to the requirements of this Agreement;

(d) any material breach by Corporation of the terms of this Agreement;

(e) the relocation of Executive's work location from the location set forth herein; or

(f) failure by any successor to Corporation expressly to assume all obligations of Corporation under this Agreement.

Section 6. DISABILITY.

6.1 TOTAL DISABILITY. In the event that after Executive has failed to have performed his regular and customary duties for a period of one hundred and eighty (180) consecutive days or for any two hundred and seventy (270) days out of any three hundred and sixty (360) day period, and before Executive has become "Rehabilitated" (as hereinbelow defined) a majority of the members of the Board of Directors of the Corporation, exclusive of Executive, may vote to determine that Executive is mentally or physically incapable or unable to continue to perform such regular and customary duties of employment and upon the date of such majority vote, Executive shall be deemed to be suffering from a "Total Disability." As used herein, the term "Rehabilitated" shall mean such time as Executive is willing, able and commences to devote his time and energies to the affairs of Corporation to the extent and in the manner that he did so prior to his disability.

6.2 PAYMENT DURING DISABILITY. In the event Executive is unable to perform his duties hereunder by reason of a disability, prior to the time such disability is deemed a Total Disability in accordance with the provisions of Section 6.1 above, Corporation shall continue to pay Executive his appropriate Base Salary pursuant to Section 4.1 during the continuance of any such disability. Upon a determination of any Total Disability pursuant to the provisions of Section 6.1 above, Corporation shall pay to Executive his appropriate Base Salary pursuant to Section 4.1 for the twelve (12) month period immediately subsequent to the date of determination of Total Disability.

Section 7. VACATIONS. Executive shall be entitled to a vacation of four (4) weeks per year, during which period his Base Salary shall be paid in full. Executive shall take his vacation at such time or times as Executive and Corporation shall determine is mutually convenient.

Section 8. DISCLOSURE OF CONFIDENTIAL INFORMATION. Executive recognizes that he has had and will continue to have access to secret and confidential information regarding Corporation,

including but not limited to its customer list, products, know-how, and business plans. Executive acknowledges that such information is of great value to Corporation, is the sole property of Corporation, and has been and will be acquired by him in confidence. In consideration of the obligations undertaken by Corporation herein, Executive will not, at any time, during or after his employment hereunder, reveal, divulge or make known to any person, any information acquired by Executive during the course of his employment, which is treated as confidential by Corporation, including but not limited to its customer list, and not otherwise in the public domain. The provisions of this Section 8 shall survive Executive's employment hereunder.

Section 9. COVENANT NOT TO COMPETE.

(a) Executive recognizes that the services to be performed by him hereunder are special, unique and extraordinary. The parties confirm that it is reasonably necessary for the protection of Corporation that Executive agree, and accordingly, Executive does hereby agree, that he shall not, directly or indirectly, at any time during the "Restricted Period" within the "Restricted Area" (as those terms are defined in Section 9(e) below):

(i) except as provided in Subsection (c) below, engage in the business of manufacturing, designing or marketing shoes either on his own behalf or as an officer, director, stockholder, partner, consultant, associate, employee, owner, agent, creditor, independent contractor, or co-venturer of any third party; or

(ii) employ or engage, or cause or authorize, directly or indirectly, to be employed or engaged, for or on behalf of himself or any third party, any non-secretarial employee or agent of Corporation.

(b) Executive hereby agrees that he will not, directly or indirectly, for or on behalf of himself or any third party, at any time during the Term and during the Restricted Period solicit any customers of Corporation.

(c) If any of the restrictions contained in this Section 9 shall be deemed to be unenforceable by reason of the extent, duration or geographical scope thereof, or otherwise, then the court making such determination shall have the right to reduce such extent, duration, geographical scope, or other provisions hereof and in its reduced form this Section shall then be enforceable in the manner contemplated hereby.

(d) This Section 9 shall not be construed to prevent Executive from owning, directly and indirectly, in the aggregate, an amount not exceeding five percent (5%) of the issued and outstanding voting securities of any class of any corporation whose voting capital stock is traded on a national securities exchange or in the over-the-counter market.

(e) The term "Restricted Period," as used in this Section 9, shall mean the period of Executive's actual employment hereunder plus: (i) twelve (12) months after the date Executive is actually no longer employed by Corporation in the event this Agreement expires or Executive's termination For Cause; and, (ii) twenty-four (24) months after the date Executive is actually no longer employed by Corporation in the event that Executive resigns,

except if Executive resigns pursuant to Section 5.5 hereof. The term "Restricted Area" as used in this Section 9 shall mean the seventy-five (75) mile radius from Corporation's principal executive offices.

(f) The provisions of this Section 9 shall survive the termination of Executive's employment hereunder and until the end of the Restricted Period as provided in Section 9(e) hereof.

Section 10. MISCELLANEOUS.

10.1 INJUNCTIVE RELIEF. Executive acknowledges that the services to be rendered under the provisions of this Agreement are of a special, unique and extraordinary character and that it would be difficult or impossible to replace such services. Accordingly, Executive agrees that any breach or threatened breach by him of Sections 8 or 9 of this Agreement shall entitle Corporation, in addition to all other legal remedies available to it, to apply to any court of competent jurisdiction to seek to enjoin such breach or threatened breach. The parties understand and intend that each restriction agreed to by Executive hereinabove shall be construed as separable and divisible from every other restriction, that the unenforceability of any restriction shall not limit the enforceability, in whole or in part, of any other restriction, and that one or more or all of such restrictions may be enforced in whole or in part as the circumstances warrant. In the event that any restriction in this Agreement is more restrictive than permitted by law in the jurisdiction in which Corporation seeks enforcement thereof such restriction shall be limited to the extent permitted by law.

10.2 ASSIGNMENTS. Neither Executive nor Corporation may assign or delegate any of their rights or duties under this Agreement without the express written consent of the other.

10.3 ENTIRE AGREEMENT. This Agreement constitutes and embodies the full and complete understanding and agreement of the parties with respect to Executive's employment by Corporation, supersedes all prior understandings and agreements, whether oral or written, between Executive and Corporation, including but not limited to the Prior Employment Agreement, and shall not be amended, modified or changed except by an instrument in writing executed by the party to be charged. The invalidity or partial invalidity of one or more provisions of this Agreement shall not invalidate any other provision of this Agreement. No waiver by either party of any provision or condition to be performed shall be deemed a waiver of similar or dissimilar provisions or conditions at the same time or any prior or subsequent time.

10.4 BINDING EFFECT. This Agreement shall inure to the benefit of, be binding upon and enforceable against, the parties hereto and their respective successors, heirs, beneficiaries and permitted assigns.

10.5 HEADING. The headings contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

10.6 NOTICES. All notices, requests, demands and other communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when personally delivered, sent by registered or certified mail, return receipt requested, postage prepaid, or by private overnight mail service (e.g. Federal Express) to the party at the address set

forth above or to such other address as either party may hereafter give notice of in accordance with the provisions hereof. Notices shall be deemed given on the sooner of the date actually received or the third business day after sending.

10.7 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without giving effect to such State's conflicts of 1aws provisions and each of the parties hereto irrevocably consents to the jurisdiction and venue of the federal and state courts located in the State of New York, County of New York.

10.8 COUNTERPARTS. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

10.9 TERMINATION OF CONSULTING AGREEMENT PROVISION. Reference is made to the Consulting Agreement (the "Consulting Agreement"), dated as of March 23, 1995, between BOCAP Corp., a Florida corporation ("BOCAP"), and Corporation, and the Assignment and Assumption Agreement, dated as of May 26, 1995, among BOCAP, Executive and Corporation, pursuant to which Executive assumed the rights and duties of BOCAP under the Consulting Agreement. The second paragraph of Section 3 of the Consulting Agreement is hereby terminated and shall be of no further force and effect as of the date hereof.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth above.

STEVE MADDEN LTD.

By: /s/ Steve Madden

Steve Madden

/s/ Steve Madden

Steve Madden

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of January 1, 1998 by and between STEVEN MADDEN, LTD., a New York corporation with offices at 52-16 Barnett Avenue, Long Island City, N.Y. 11104 (the "Company"), and ARVIND DHARIA, an individual residing at 1001 Fifth Avenue, New Hyde Park, NY 11040 (the " Executive").

W I T N E S S E T H

WHEREAS, the Company desires to secure the continued services of Executive upon the terms and condition hereinafter set forth; and

WHEREAS, Executive desires to continue to render services to the Company upon the terms and conditions herein set forth.

NOW, THEREFORE, the parties mutually agree as follows;

SECTION 1. EMPLOYMENT. The Company hereby employs Executive and Executive hereby accepts such employment, as an executive of the Company, subject to the terms and conditions set forth in this Agreement.

SECTION 2. DUTIES. Executive shall serve as the Company's Chief Financial Officer until such time as the Company hires an individual in such capacity and thereafter, Executive shall for the remainder of the Term (as hereinafter defined) serve as the Treasurer and Controller of the Company. The Executive shall perform such duties as may reasonably be assigned to him from time to time by the Chief Executive Officer of the Company. During the term of this Agreement, Executive shall devote all of his business time to the performance of his duties hereunder unless otherwise authorized by the Board of Directors.

SECTION 3. TERM OF EMPLOYMENT. The term of Executive's employment, unless sooner terminated in accordance with the provisions set forth herein, shall be for a period of four (4) years commencing January 1, 1998 (the "Term"). The terms of this Agreement shall be automatically extended for one additional term of one year unless either parties notifies the other in writing by certified mail return receipt requested at least 90 days prior to the expiration of the Term, of its, intention not to extend the Term. If the Executive advises the Company of his intent not to extend the Term in writing by certified mail return receipt requested, he shall not be entitled to any additional compensation. [However, if the Company advises the Executive of its intent not to extend the Term (other than for Cause or Total Disability solely as set forth in Sections 5 and 6), then Executive shall be entitled to receive severance compensation equal to the then applicable Base Salary for three month period commencing on the expiration of the Term, to be paid in accordance with the Company's customary payroll practices, as long as Executive continues to be in compliance with Section 8 hereof.]

SECTION 4.1 SALARY. The Company shall pay to Executive a base salary of One Hundred and Forty Thousand Dollars ($140,000) per annum, subject to increases in accordance with the terms of the last sentence of this Section 4.1 (the "Base Salary"), less such deductions as shall be required to be withheld by applicable law and regulations. All salaries payable to Executive shall be paid at such regular weekly, biweekly or semi-monthly time or times as the Company make payment of its regular payroll in the regular course of business. Commencing on the third anniversary of the date hereof, and on each anniversary thereafter during the Term, the Base Salary shall be increased by 10% of the then Base Salary.

SECTION 4.2 BONUSES. Subject to the approval of the Company's 1998 Stock Plan by the stockholders of the Company, the Executive shall receive an option to purchase 25,000 shares of Common Stock on June 30 of each year during the Term. The options comprising the option shall vest quarterly (6,250 shares) over a one (1) year period commencing on June 30, 1998 and be exercisable at a price equal to the average closing bid price of the Company's shares of Common Stock on June 30. The Company agrees to reserve under a stock plan approved by its stockholders 100,000 shares of the Company's Common Stock for issuance upon the exercise of such option. The Company shall use its best efforts to obtain approval by the Company's stockholders of the 1998 Stock Plan so that the Company may lawfully issue the options contemplated by this Section 4.2.

SECTION 4.3 AUTOMOBILE ALLOWANCE. The Company shall, at the direction of Executive, either reimburse Executive for, or directly pay the cost of, the use of an automobile during the Term and all usual expenditures in connection therewith; i.e. fuel, insurance, parking, customary maintenance and repairs, etc. in an amount not to exceed $500 per month.

SECTION 4.4 BENEFITS. Executive shall be entitled to participate in such pension, profit sharing, group insurance, options plans, hospitalization, and group health and benefit plans and all other benefits and plans as the Company provides to its senior Executives except current benefits and plans may not be removed or altered to the determent of Executive.

SECTION 5 TERMINATION.

SECTION 5.1 DEATH. This Agreement shall terminate upon the death of Executive; provided however, that the Company shall continue to pay to the estate of Executive the salary and all other benefit as set forth herein for the twelve (12) months period immediately subsequent to the date of Executive's death.

SECTION 5.2 TERMINATION DUE TO TOTAL DISABILITY.

Resignation. In the event Executive is discharged due to his "Total Disability" (as those terms are defined below) or in the event Executive resigns, then upon such occurrence, this Agreement shall be deemed terminated and the Company shall be released from all obligations to Executive with respect to this Agreement, except obligations accrued prior to

such termination date and as provided herein.

SECTION 5.3 "FOR CAUSE". As used herein, the term "For Cause" shall only mean: (i) a deliberate and intentional breach by Executive of a substantial and material duty and responsibility under the Agreement that results in material harm to the Company unless such breach is committed with reasonable belief that such breach was not contrary to the best interests of the Company, and is not remedied, if capable of being remedied, within thirty (30) days after receipt of written notice by certified mail return receipt requested from the Company specifying such breach; or (ii) Executive's plea of guilty or nolo contendere to, or conviction of, a felony, which conviction or plea causes material damage to the reputation or financial position of the Company.

In the event that the Executive is discharged for Cause, then upon such occurrence, this Agreement shall be deemed terminated and the Company shall be released from all obligations to the Executive with respect to this Agreement, except obligations which accrue prior to such termination date and as provided herein.

SECTION 5.4 TERMINATION OTHER THAN FOR TOTAL DISABILITY. In the event Executive is discharged other than for Cause or due to his "Total Disability", then such termination shall only be effective if he receives written notice thereof by certified mail return receipt requested which notice properly sets forth the Company's agreement to pay to Executive the balance of his benefit including salary that would have been paid by the Company pursuant to this Agreement, over the full Term of the Agreement if the The Company had not terminated this Agreement. Such amount shall be payable in two (2) installment as follows (i) Fifty (50%) percent on January 1 immediately following such termination and the balance of fifty (50%) percent one year after.

SECTION 5.5 TERMINATION UPON CHANGE OF CONTROL.

(a) If a Change of Control (as defined below) occurs without the Executive's prior written consent, the Executive shall have the right to terminate this Agreement. At least ten (10) days prior to any such proposed Change of Control, the Company shall notify Executive of its intention to effect such Change of Control, and the Executive shall thereupon have five (5) days from the actual receipt of such notice to give notice of his intention to terminate this Agreement in the event of the Change of Control. If, notwithstanding such notice by the Executive, the Company proceeds with such Change of Control, this Agreement shall be deemed terminated as of the effective date of the event constituting the Change of Control and the Executive shall receive in cash, within ten (10) days of termination, (i) any compensation accrued and unpaid pursuant to Section 4 of this Agreement, (ii) an amount equal to the balance of Executive's salary that would have been paid by the Company pursuant to Section 4.1 hereof over the full Term of this Agreement as if the Agreement had not been terminated, (iii) an amount equal to Executive's bonus, if any, for the preceding 12-month period ended December 31, multiplied by the remaining years (including any fractional years) left under this Agreement since the date such

bonus was determined by the Board of Directors plus (iv) an amount equal to $200,000 as severance under this Agreement. In the event that any payment (or portion thereof) to the Executive under this Section 5.5 is determined to constitute an "excess parachute payment," under Sections 28OG and 4999 of the Internal Revenue Code of 1986, as amended, the following calculations shall be made:

(i) The after-tax value to the Executive of the payments under this Section 5.5 without any reduction; and

(ii) The after-tax value to the Executive of the payments under this Section 5.5 as reduced to the maximum amount (the "Maximum Amount") which may be paid to the Executive without a portion of the payments constituting an "excess parachute payment".

If, after applying the agreed upon calculations set forth above, it is determined that the after-tax value determined under clause (ii) above is greater than the after-tax value determined under clause (i) above, the payments to Executive under this Section 5.5 shall be reduced to the Maximum Amount.

(b) If a Change of Control occurs, regardless of whether the Executive has consented to such Change of Control, Executive shall have the right to resign.

SECTION 5.6 "CHANGE OF CONTROL". As used herein, the term "Change of Control" shall mean:

(a) When any "person" as defined in Section 3(a)(9) of the Securities Exchange Act of 1934. as amended (the "Exchange Act"), and as used in Section 13(d) and 14(d) thereof. including a "group" as defined in Section 13(d) of the Exchange Act, but excluding the Company or any subsidiary or any affiliate of the Company or any employee benefit plan sponsored or maintained by the Company or any subsidiary of the Company (including any trustee of such plan acting as trustee). becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities; or

(b) When, during any period of twenty-four (24) consecutive months, the individuals who, at the beginning of such period, constitute the Board of Directors (the "Incumbent Directors") cease for any reason other than death to constitute at least a majority thereof, provided, however, that a director who was not a director at the beginning of such 24-month period shall be deemed to have satisfied such 24-month requirement (and be an Incumbent Director) if such director was elected by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors either actually (because they were directors at the beginning of such 24-month period) or through the operation of this proviso; or

(c) The occurrence of a transaction requiring stockholder approval for the acquisition of the Company by an entity other than the Company or a subsidiary or an affiliate of the Company through purchase of assets, or by merger, or otherwise.

SECTION 6 DISABILITY

SECTION 6.1 TOTAL DISABILITY. In the event that after Executive has failed to have performed his regular and customary duties for a period of ninety (90) consecutive days or for any one hundred and eighty (180) days out of any three hundred and sixty (360) days period. And before Executive has become "Rehabilitated" (as hereinbelow defined) a majority of the members of the Board of Directors of the Company, exclusive of Executive may vote to determine that Executive is mentally or physically incapable or unable to continue to perform such regular and customary duties of employment and upon the date of written notice to Executive by certified mail return receipt requested of such majority vote, Executive shall be deemed to be suffering from a "Total Disability". As used herein, the term "Rehabilitated" shall mean such time as Executive is willing, able and commences to devote his time and energies to the affairs of the Company to a reasonable extent and in a similar manner that he did prior to this disability.

SECTION 6.2 PAYMENT DURING DISABILITY. In the event Executive is unable to perform his duties hereunder by reason of a disability, prior to the time such disability is deemed by a Total Disability in accordance with the provisions of Section 6.1 above, the Company shall continue to pay Executive his benefit including salary pursuant to this Agreement for the twelve (12) month period immediately subsequent to the date of determination of Total Disability.

SECTION 7. VACATION. Executive shall be entitled to a vacation for four (4) weeks per year during which period all benefits including salary shall be paid in full. Executive shall take his vacation at such time as Executive and the Company shall determine is mutually convenient said vacation shall be cumulative or taken in extra pay.

SECTION 8. DISCLOSURE OF CONFIDENTIAL INFORMATION. Executive recognizes that he has had and will continue to have access to secret and confidential information regarding the Company, including but not limited to its customer list, products, know-how, and business plans. Executive acknowledges that such information is of great value to the Company, is the sole property of the Company, and has been and will be acquired by him in confidence. In consideration of the obligations undertaken by the Company herein, Executive will not, at any time, during his employment hereunder, reveal, divulge or make known to any person, any information concerning the Company acquired by Executive during the course of his employment, which is treated as confidential by the Company. Provided same is not otherwise in the public domain or information that Executive could have and did learned separate and apart from his duties set forth herein, provided said information would not be detrimental to the Company this provision shall survive Executive's employment hereunder for a period of six months.

SECTION 9.1 ASSIGNMENTS. Neither Executive nor the Company may assign or delegate any of their rights or duties under this Agreement without the express written consent of the other.

SECTION 9.2 ENTIRE AGREEMENT. This Agreement constitutes and embodies the full and complete understanding and agreement of the parties with respect to Executive's employment by the Company, supersedes all prior understanding and agreements, whether oral or written, between Executive and the Company, including by not limited to the prior Employment Agreement, and shall not be amended, modified or changed except by an instrument in writing executed by the party to be charged. The invalidity of one or more provisions of this Agreement shall not invalidate any other provision of this Agreement. No waiver by either party of any provision or condition to be performed shall be deemed a waiver of similar or dissimilar provisions or conditions at the same time or any prior or subsequent time.

SECTION 9.3 BINDING EFFECT. This Agreement shall inure to the benefit of, be binding upon and enforceable against, the parties hereto and their respective successors, heirs, beneficiaries and permitted assigns.

SECTION 9.4 HEADINGS. The headings contained in this Agreement are for convenience of reference only and shall not affect any way the meaning or interpretation of this Agreement.

SECTION 9.5 NOTICES. All notices, requests, demands and other communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when delivered, sent by registered or certified mail, return receipt requested, postage prepaid or by private overnight mail service (e.g. Federal Express) to the party at the address set forth above or to such other address as either party may hereafter given notice of accordance with provision hereof. Notice shall be deemed given on the sooner of the date actually received or the third business day after sending.

SECTION 9.6 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without giving effect to such State's conflicts of laws provisions and each of the parties hereto irrevocably consents to the jurisdiction and venue of the federal and state courts located in the Sate of New York, County of New York.

SECTION 9.7 COUNTERPARTS. This Agreement may be executed simultaneously into two or more counterparts, each of which shall be deemed and original, but all of which together shall constitute one of the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first set forth above.

STEVEN MADDEN, LTD

BY: /s/ STEVEN MADDEN

Steven Madden
Chief Executive Officer and President

BY: /s/ ARVIND DHARIA

Arvind Dharia

EXHIBIT 21.01

SUBSIDIARIES OF REGISTRANT

NAME	STATE OF INCORPORATION
Diva Acquisition Corp.	Delaware
Steven Madden Retail, Inc.	Delaware
Adesso-Madden, Inc.	Delaware

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