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, 1996.

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, 1996 were $45,823,000.

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 20, 1996 was approximately $29,529,454.

Number of shares outstanding of the issuers common stock, as of March 20, 1997, was 7,935,594 shares.

DOCUMENTS INCORPORATED BY REFERENCE:

PART III INCORPORATES CERTAIN INFORMATION BY REFERENCE FROM THE REGISTRANTS DEFINITIVE PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS SCHEDULED FOR MAY 23, 1997.

PART I

ITEM 1. BUSINESS.

Steven Madden, Ltd. (the "Company") designs and markets fashion footwear for sale to women, primarily through department stores, footwear specialty stores, catalogues and four (4) Company owned retail stores. The Company's products are designed to appeal principally to fashion conscious consumers who shop at department stores and footwear boutiques, and are moderately priced to attract a broad range of customers. Since its formation in 1990, the Company has introduced approximately four (4) new product lines each year with the current collection consisting of approximately forty (40) styles, including clogs, pumps, boots, sneakers and sandals. The Company's business is comprised of a wholesale division, a retail division, a private label division and the David Aaron(R) division. In 1997, the Company hopes to increase sales in each of these divisions and to commence an aggressive licensing program which will serve to significantly enhance the Company's brand awareness with retailers and consumers.The Company was founded and developed by Steven Madden, its Chief Executive Officer, President and Chairman of the Board. Mr. Madden is the principal designer of the Company's footwear.

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 trade on The Nasdaq National Market under the symbol "SHOO".

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

THE STEVE MADDEN, LTD. - WHOLESALE DIVISION

The wholesale division sells and markets the Company's Steve Madden(TM) brand to major department stores, better specialty stores, and shoe stores throughout the country and in Canada. During the last few years the Steve Madden(TM) 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 1996, the wholesale division expanded its product mix to include sales of tailored

shoes, casual boots, and evening footwear. The Company, to further diversify its product offerings, is including athletic footwear in 1997.

As the Company's largest division, the Steve Madden(TM) wholesale division accounted for $36,500,000 in sales in 1996, or approximately 80% 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 rapidly respond to changing preferences which is essential to success in the junior marketplace.

STEVEN MADDEN RETAIL, INC. - RETAIL DIVISION

The Company currently operates four (4) retail shoe stores under the Steve Madden(TM) name. Two (2) stores are located in Manhattan (in Soho and the Upper Eastside) and two (2) stores are located in major shopping malls (The Roosevelt Field Shopping Mall in Long Island, New York and The Garden State Plaza in Paramus, New Jersey). Each of the 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 $1,000 per square foot. Sales are primarily from the sale of the Company's Steve Madden(TM). Same store sales increased 9% in 1996 over 1995 sales and total sales for the retail division were $3,805,000 compared to $1,951,000 for 1995.

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 eight (8) new retail stores in 1997. 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. In 1996, the Company hired a Director of Retail to manage the retail store expansion.

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. A-M receives commissions in connection with the purchase of private label shoes by its clients. A-M entered into an employment agreement with Gerald Mongeluzo, pursuant to which Mr. Mongeluzo will serve as President of A-M for a period of two (2) years. Mr. Mongeluzo was the founder and President of Adesso Shoes, Inc.

which was previously engaged in a business similar to A-M's business. To the Company's knowledge, Adesso Shoes, Inc. has ceased its operations. In 1996, sales for the Private Label Division generated revenue of $2,500,000 for the last three (3) months of 1996 and a commission of $951,000 for the year ended December 31, 1996. See "Management's Discussion and Analysis" and "Management-Employment Agreements."

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

On April 1, 1996, the Company acquired Diva International, Inc., a New York corporation ("Diva"), and its affiliate, Design Studio, a Spanish corporation ("Design Studio"). The Company acquired through Diva Acquisition Corp., a wholly owned subsidiary, all of the outstanding capital stock of Diva and the assets of Design Studio for an aggregate of (i) $1,000,000 in cash and (ii) $1,400,000 to be paid on the first anniversary of the Closing (the "Subsequent Payment"). In lieu of paying the Subsequent Payment in cash, the Company may elect to issue shares of Common Stock, subject to adjustment based upon net assets of Diva at the time of Closing. Because of a downward adjustment to the amount of the Subsequent Payment, the Company anticipates issuing approximately 86,000 shares of Common Stock as payment of the Subsequent Payment. In connection with the Diva transaction, the Company entered into employment agreements with four (4) key employees of Diva. The agreements provide such individuals with base salaries and bonuses based upon the performance of Diva Acquisition Corp.

Diva designs and markets fashion footwear to women under the "David Aaron(R)" name through major department stores and better footwear specialty stores. Diva's products are designed to appeal principally to fashion conscious women, ages 25 to 44, who shop at department stores and footwear boutiques, priced a tier above the Steve Madden(TM) brand. The Company recorded sales from the David Aaron(R) brand of approximately $3,000,000 for the nine month period from April 1, 1996 (the date of acquisition) through December 31, 1996, or 7% of the Company's total sales.

PRODUCTS

The Company designs and markets a variety of shoes under the Steve Madden(TM) name for "junior" women and under the David Aaron(R) name for more sophisticated customers. The Steve Madden(TM) line emphasizes up-to-date fashion while the David Aaron(R) brand concentrates on fashionable variations with contemporary styling. New designs are introduced periodically in response to developing demands and tastes. The Company presently manufactures women's footwear, including boots, clogs, sneakers and sandals.

MANUFACTURING

As is common in the footwear industry, the Company contracts for the manufacture of footwear products to its specifications through independent manufacturers. The Company believes that this sourcing of footwear products minimizes its investment in fixed plants, reduces costs, and enables the Company to more efficiently and rapidly introduce new product designs. At the same time, the Company does not bear the expense or risks of maintaining its own manufacturing operation. The Company presently contracts for manufacture of its shoes by factories in Mexico, Brazil, China and certain other locations. Although the Company has not entered into long-term manufacturing contracts with any of these companies, the Company believes that a sufficient number of alternative sources exist, for the manufacture of its products, although there can be no assurance that the Company will be able to replace its current suppliers without delay or increased costs. The Company does not believe that its position will be materially affected by political or economic conditions in such foreign countries because of the availability of such alternative resources.

The principal materials used in the Company's footwear are leather, nylon, rubber, wood, and

polyurethane. Most of these materials are available from any number of sources, both within the United States and in foreign countries, although a loss of supply could temporarily interrupt or delay the manufacture of affected items or force the Company to seek manufacturers elsewhere.

The Company believes that it has the ability to develop, over a period of time, adequate alternative sources of supply, both domestic and foreign, for the products obtained from present foreign suppliers. However, should the Company be unable to acquire products from present suppliers or alternative sources, the Company's operations would be seriously disrupted until alternative suppliers could be found. Any such action could result in increases in the cost of footwear in general and, accordingly might adversely affect the sales and profitability of the Company.

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) and approximately fifty percent (50%) to specialty stores, including shoe stores such as Edison Brothers (Wild Pair, Precis, Bakers and Leeds) and juniors ready-to-wear stores such as Urban Outfitters. As a result of the merger between Federated Department Stores and R.H. Macy and Company, Federated Department Stores presently accounts for approximately seventeen (17%) of the Company's sales. In 1996, the Company expanded its customer base beyond the East

and West coasts into other major markets including the Midwest, Southwest, Northwest and Canada.

DISTRIBUTION

The Company distributes its shoe products through its sales force, presently comprised of twelve (12) employees, one (1) full time Director of Operations and 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 department and specialty stores. The Company intends to leverage its existing network of sales representatives and thereby open new markets and increase its customer bases.

COMPETITION

The fashionable footwear industry is highly competitive. The Company's competitors include specialty companies as well as companies with diversified product lines. The recent substantial growth in the sales of fashionable footwear has encouraged the entry of many new competitors and increased competition from established companies. Most of these competitors, including Nine-West, Esprit, Sam and Libby, 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, ADVERTISING AND PROMOTION

The Company's current marketing approach is targeted to fashion forward young women who demand footwear with up-to-the-minute styling at reasonable prices. The Company believes that consumer preference is shifting from tailored footwear to athletic looks, dress and casual leather fashion footwear. In response to this trend, the Company has concentrated its efforts on the design and marketing of a collection which includes sneakers, dress platform shoes, clogs, boots and sandals. The Company presents its products at various national and regional trade shows. To reinforce the Company's presence in the marketplace, marketing and promotional strategies are created to improve sales at the retail level and reinforce brand awareness.

The Company advertises its footwear in trade and consumer publications as well as on billboards and painted walls in key locations. The Company intends to expand its marketing efforts by increasing its advertising in fashion and teen publications. In addition, the Company will launch in 1997 a national consumer add campaign for David Aaron(R), as well as trade advertising. The Company will augment the national effort for Steve Madden(TM) with strategic and regional

marketing.

In 1996, the Company created its site on the World Wide Web at http:\\www.Stevemadden.com to provide information regarding the Company's products to potential customers. In 1997, the Company intends to promote its Web site by offering visitors interactive activities, such as the Steve Madden Fan Club and a chat room where the Company's customers can discuss fashion and other topics of interest.

In 1995, the Company hired an in-store coordinator to enhance sales of the Company's products to major retail stores. The Company believes that by supervising the display and merchandising of the Company's various shoe lines as well as ordering the Company's shoes on behalf of sizable department stores, the in-house coordinator will assist in increasing the Company's sales. In 1997, at least 50 in store presentations will be in place.

In 1996, the Company hired an Image Director to implement marketing and licensing strategies which include engaging a new advertising agency and a promotion and public relations firm. Additionally, efforts to select licensing partners in key product categories has been initiated. As of February 1997, two (2) licenses have been executed for Steve Madden(TM) handbags and Steve Madden(TM) sunglasses. It is the Company's intention to continue its licensing efforts in 1997.

On December 4, 1995, the Company entered into an arrangement pursuant to which it prepaid for media time (television and radio) and print advertising (newspaper and magazines). In January 1997, the Company was granted a one (1) year extension on the usage of the credits thereby strengthening its marketing efforts. See "Financial Statements."

MANAGEMENT INFORMATION SYSTEMS (MIS) OPERATIONS

In 1996, the Company hired a Director of Management Information Systems to further strengthen its systems of operation, including a more versatile hardware and software package linking the Company's

operations. The Company intends for the system to be operative by the second quarter of 1997 and will roll- out its automatic inventory replenishment by July 1997, enhancing sales and profitability.

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 (6%) percent or prime plus (1%). 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 regularly explores alternative factoring relationships in order to obtain such receivables financing on terms which are more favorable to the Company.

TRADEMARKS

The Steve Madden(TM) trademark is the property of the Company. Although such trademark has not been registered with the United States Patent and Trademark Office ("PTO"), to the Company's knowledge, the Company has the common law right to use such trademarks on its products and in the marketing of its services. In 1996, the Company filed applications with the PTO to register its Steve Madden(TM) trademark with regard to footwear, handbags, clothing, sunglasses and eyeglasses, jewelry, belts, cosmetics and fragrances. There can be no assurance, however, that the Company will be able to effectively protect such property rights. The failure by the Company to protect such rights from unlawful and improper appropriation may have a material adverse effect on the Company.

The Company has also filed application with the PTO to register its Steve Madden(TM) mark for the operation of its retail stores plus design trademark in the United States in connection with clothing, sunglasses and eyeglasses, jewelry, belts, cosmetics and fragrances.

The David Aaron(R) trademark was registered with the PTO on June 6, 1995, under the classifications for handbags, clothing, and footwear. Diva Acquisition Corp. has also filed application with the PTO in January, 1997 to register its David Aaron(R) trademark for the operation of anticipated retail stores.

EMPLOYEES

At March 20, 1997, the Company employed one hundred fifty four (154) persons, many of which work on a full-time basis. 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 retail warehouse at 52-16 Barnett Avenue, Long Island City, NY 11104 and a wholesale warehouse at 3400 McIntosh Rd., Ft. Lauderdale, FL 33316. The premises in Long Island City consists of approximately 8,500 square feet of administrative

office space and approximately 2,500 square feet of retail 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 14,000 sq. ft. of wholesale office space with an inventory capacity of 200,000 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, 500 square feet of administrative office space and approximately 2,000 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. Presently, the Company's products comprise about seventy (70%) percent of the Soho Store's inventory, with other manufacturers representing the balance.

On July 18, 1995, the Company entered into a 12 year lease for a retail location on 86th Street on the upper eastside of Manhattan (the "Eastside Store"). The Company opened the Eastside Store in October 1995. The lease is for approximately 3,000 square feet and requires the monthly rent payment of approximately $22,000. Rent escalates during the term of the lease to maximum of approximately $31,000 per month. The Company subleases approximately 1,000 square feet to a non-affiliated retail establishment.

On November 1, 1995, the Company opened a new distribution facility at 3400 Macintosh Road, Port Everglades, FL 33316. The premises are divided into office space (2,000 square feet) and warehouse space (14,000 square feet). The lease for this facility terminates on September 30, 1997.

On April 30, 1996, the Company entered into a ten (10) year lease for a retail location in The Garden State Plaza Shopping Center, New Jersey (the "New Jersey Store"). The lease is for approximately 1,200 square feet.

On May 24, 1996, the Company entered into an assignment of lease for a retail location in the Roosevelt Field Shopping Center on Long Island, New York (the "Roosevelt Field Store"). The assigned lease is for approximately 1,600 square feetand terminates in August, 2003.

ITEM 3. LEGAL PROCEEDINGS.

No material legal proceedings are pending to which the Company or any of its property is subject and, to the knowledge of the Company, there are no material legal proceedings threatened.

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, 1996.

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, 1996, as reported by The Nasdaq SmallCap 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 A Warrants		Class B Warrants	
	High	Low	High	Low	High	Low
1995						
Quarter ended March 31, 1995	6-3/8	3-7/8	3-5/8	1	2-3/4	7/8
Quarter ended June 30, 1995	6-5/8	4-1/2	2-5/8	1	2	1
Quarter ended September 30, 1995	9	5-9/16	4-3/8	2-3/8	4-5/16	1-7/8
Quarter ended December 31, 1995	10-1/8	7	5-1/2	2-1/4	5-1/8	2-3/4
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

On March 20, 1997, the final quoted prices as reported by The Nasdaq National Market were $4.44 for the Common Stock and $1.44 for the Class B

Warrants. As of March 20, 1997, there were 7,935,594 shares of Common Stock outstanding, held of record by approximately 71 record holders and 3,400 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.

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

	Percentage of Net Revenues Years Ended December 31			
	1996	%	1995	%
CONSOLIDATED:				
Revenues	$45,822,605	100	$38,734,765	100
Cost of Revenues	31,342,504	68.4	25,911,007	66.9
Other Operating Income	950,675	2	378,316	1
Operating Expenses	13,998,449	30.5	7,451,249	19.2
Income from Operations	1,432,327	3.1	5,750,825	14.9
Interest Expense	-162,049	-0.4	264,640	0.7
Interest Income	321,935	0.7	167,302	0.4
Other Expenses	---	---	-104,348	0.3
Income Before Income Taxes	1,592,213	3.4	5,549,140	14.3
Net Income	1,058,673	2.3	3,756,525	9.6

By Segment:

WHOLESALE - Steve Madden Ltd.				
Revenues	$36,463,891	100	$35,307,077	100
Cost Of Revenues	24,887,124	68.3	24,279,655	68.8
Other Operating Income	---	---	169,704	0.5
Operating Expenses	10,674,571	29.3	6,374,692	18.0
Income from Operations	902,196	2.4	4,822,437	13.7
OTHERS(1)				
Revenues	$9,358,714	100	$3,427,689	100
Cost of Revenues	6,455,380	69	1,631,352	47.6
Other Operating Income	950,675	10.2	208,612	6.1
Operating Expenses	3,323,878	35.5	1,076,557	31.4
Income from Operations	530,131	5.7	928,392	27.1

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(1) Includes Diva International for nine months ended December 31, 1996.

RESULTS OF OPERATIONS

Year Ended December 31, 1996 vs. Year Ended December 31, 1995

Revenues for the twelve months ended December 31, 1996 were $45,823,000 or 18% higher than the $38,735,000 recorded in the comparable period of 1995. The increase in product sales revenue is due to several factors: additional new accounts, increased reorders and increased retail sales. As a result of additional distribution, management feels that "Steve Madden" as a brand name has increased in popularity nationwide. Cost of Revenues increased 1% from 67% in 1995 to 68% in 1996, primarily as a result of a higher markdowns experienced in the second quarter of 1996. Adesso-Madden, a wholly owned subsidiary of the Company, generated revenue of $2,541,000 for the last three months of 1996 and a commission of $951,000 for the year ended December 31, 1996. The Company's newly acquired subsidiary, Diva which markets the "David Aaron" brand name in footwear had sales of $3,013,000 for the nine month period from April 1, 1996 (date of acquisition) through December 31, 1996. Gross profit was $773,000 and loss from operations was $375,000. In December 1995 the Company sold its Marlboro Leather division which generated $1,476,000 of revenues and a loss of $198,000 during 1995.

Selling, general and administrative (SG&A) expenses increased 88% to $13,999,000 in 1996 from $7,451,000 in 1995. In the second and third quarters of 1996 the Company began to strategically strengthen its management team and infrastructure laying the foundation for future growth. Thus, the increase SG&A is due primarily to a 75% increase in payroll, bonuses and related expenses from $2,869,000 in 1995 to $5,010,000 in 1996. Additionally, the Company focused its efforts on selling, advertising, marketing, and designing thus increasing those expenses by 99% from $2,340,000 in 1995 to $4,660,000 in 1996. Also, the Company expanded its retail outlets and office facilities thereby increasing the occupancy, telephone, and utilities expenses by 162% from $354,000 in 1995 to $928,000 in 1996. In addition, in 1996 the Company recorded a one time charge of $550,000 related to default of notes receivable from the sale of Marlboro Leather. Also selling, general and administrative expenses has increased by $377,000 from $467,000 in 1995 to $844,000 in 1996 due to additional cost related to designer support personnel as the Company strategically focused on the expansion of product classifications. Income from operations for 1996 was $1,432,000 which represents a decrease of $4,319,000 from the income from operations of $5,751,000 in 1995. This decrease resulted from higher cost of revenues as a percent of sales and from the substantial increase in selling, general and administrative expenses. The net income for 1996 was $1,059,000 as compared to net income of $3,757,000 for the 1995.

Steve Madden Wholesale Division revenues accounted for $36,464,000 or 80% and $35,307,000 or 91% of total revenues in 1996 and 1995, respectively. Wholesale Division cost of revenues as percent of sales remains the same. Operating expenses increased by 68% from $6,375,000 in 1995 to $10,675,000 in 1996. This increase is due to an increase in payroll and payroll related expenses due to the hiring of additional management personnel and an increase in occupancy expenses due to additional warehouse space needed for expanding inventory and the renovation of NYC showroom space as part of an aggressive

sales approach. Wholesale income from operations was $902,000 in 1996 compared to $4,822,000 in 1995. This decrease is a result of the higher cost of revenues and from the substantial increase in operating expenses. Operating expenses have increased due to developing a new line of sneakers and hiring additional personnel to facilitate future growth of footwear classifications/extensions.

Revenues from the Retail Division accounted for $3,805,000 or 8% and $1,951,000 or 5% of total revenues in 1996 and 1995, respectively. This increase in revenues is due to the Company's opening of third retail store in Roosevelt Field Mall, Long Island NY and fourth retail store in Paramus New Jersey, in November 1996 which generated revenues of $425,000 and $168,000, respectively. The gross margin from the retail stores was $1,933,000 or 51% and $910,000 or 47% in 1996 and 1995, respectively. The increase in gross margin dollars and gross margin percentage is due to a reduction of markdowns and better control over the flow of merchandise to the retail stores. Selling, general and administrative expenses increased to $1,385,000 or 36% of sales in 1996 from $577,000 or 30% of sales in 1995. This increase is due to increases in payroll and related expenses, occupancy, printing and depreciation expenses as a result of opening two additional stores. Additionally, the Company hired a Director of Retail Operations, anticipating increases in the number of retail stores. Income from operations from the Retail Division was $549,000 in 1996 compared to income from operations of $334,000 in 1995.

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 to manufacture private label shoes to the specifications of A-M and for its clients. A-M receives commissions in connection with the purchase of private label shoes by its clients. The Company determined that the entry into the private label, as well as mass merchandising markets would provide the Company with an additional source of revenue, by leveraging the Company's existing suppliers. The Company does not expect this expansion to have any impact on its upscale, brand name market since the private label line will not offer the current designs of Steve Madden or David Aaron styles of shoes for six months to a year after the brand name product is released.

LIQUIDITY AND CAPITAL RESOURCES

The Company has working capital of $13,720,000 at December 31, 1996 which represents an increase of $4,095,000 in working capital from December 31,1995. In 1996 the Company received proceeds of $6,302,000 from the exercise of Class A Warrants.

The Company's customers consist principally of department stores and specialty stores, including shoe boutiques. Presently, the Company sells approximately fifty percent (50%) of its products to department stores,

including Federated Department Stores (Bloomingdales, Burdines, Macy's East, Macy's West and Rich's) May Department Stores, Dillards, Nordstrom'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. As a result of the merger between Federated Department Stores and R.H. Macy and Company, Federated Department Stores presently accounts for approximately 17% of the Company's sales.

OPERATING ACTIVITIES

During the year ended December 31, 1996, operating activities used $874,000 of cash. The use of cash arose principally from a decrease in accounts receivable-non factored of $326,000, an increase in accounts receivable factored of $876,000, and an increase in inventories of $1,381,000. Additionally there was an increase of prepaid expenses and other assets of $199,000, decrease in taxes on income of $1,155,000, an increase in accounts payable and accrued expenses of $280,000, as well as a decrease in other current liabilities of $11,000, and a decrease in accrued bonuses of $163,000. Inventory purchases have increased due to increased sales volume.

The Company has lease agreements for office, warehouse, and retail space, expiring at various times through 2007. Future obligations under these lease agreements total $6,053,000 with annual lease commitments of $926,000.

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. 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 exists outside of the United States for the manufacture of its product if current suppliers need to be replaced. In addition, because the Company deals with U.S. currency for all transactions and intends to continue to do so, the Company believes there should be no foreign exchange considerations.

INVESTING ACTIVITIES

During the year ended December 31, 1996, the Company used cash of $1,179,000 to acquire equipment and make leasehold improvements on new office, retail and warehouse space. Additionally, the Company made an initial payment of $1,000,000 to the owners of Diva International, Inc. to acquire all the outstanding common stock of Diva. The remaining balance due is $645,000, as adjusted, which can be paid in cash or the Company's common stock. The amount is due April 1, 1997. Additionally, the Company repaid $476,000 on a note assumed

in the acquisition.

FINANCING ACTIVITIES

During the year ended December 31, 1996, the Company purchased treasury stock of $457,000 and the Company received $6,302,000 from the exercise of Class A Warrants and options. In connection with the acquisition of Diva International, Inc., the Company owes the former owners $645,000 payable in cash or shares of Common Stock by April 1, 1997.

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.

Mortenson & Associates, P.C. ("Mortenson") by the letter dated December 22, 1995 was dismissed as the independent accountants for the Registrant. The reports of Mortenson on the financial statements of the Registrant for the past two fiscal years contain no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. The Registrant's Board of Directors approved the dismissal of Mortenson. For the two most recent fiscal years and through December 22, 1995, there have been no disagreements between the Registrant and Mortenson on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which would have caused Mortenson to make a reference thereto in its report on the Registrant's financial statements for such period. During the two most recent fiscal years and through December 22, 1995, there have been no reportable events (as defined in Regulation S-K, Item 304(a)(1)(v)).

The Registrant was furnished with a letter from Mortenson addressed to the Securities and Exchange Commission stating that Mortenson agrees with the above statements.

The Registrant engaged Richard A. Eisner & Company, LLP, 575 Madison Avenue, New York, New York 10022 ("RAE"), as its new independent accountants as of December 22, 1995. Prior to such date, the Registrant did not consult with RAE regarding (i) the application of accounting principles, (ii) the type of audit opinion that might be rendered by RAE, or (iii) any other matter that was the subject of a disagreement between the Registrant and its auditor (as defined in Item 304(a)(1)(iv) of Regulation S-K) or a reportable event (as described in Item 304(a) (1)(v) of Regulation S-K).

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	39	President, Chairman of the Board and Chief Executive Officer
Rhonda Brown	41	Chief Operating Officer and Director
Arvind Dharia	47	Chief Financial Officer and Director
John Basile	45	Executive Vice-President and Director
Gerald Mongeluzo	56	President of Adesso-Madden, Inc.
Yves Levenson	39	President of Diva Acquisition Corp.
John L. Madden	50	Director
Peter Migliorini	49	Director
Les Wagner	58	Director
Gary DeLuca*	42	Director

* Mr. Deluca resigned as a Director of the Company in April, 1996.

BACKGROUND OF EXECUTIVE OFFICERS AND DIRECTORS

STEVEN MADDEN, the Company's founder, President, Chairman of the Board and Chief Executive Officer, attended the University of Miami. Mr. Madden has also served as a consultant to the Company since May 1995. In 1980, Mr. Madden joined L.J. Simone footwear as an Account Executive. At that time, the domestic manufacturer had an annual sales volume 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 a $28 million annual volume. After leaving L.J. Simone in 1988, he joined M.C.M. Footwear, where he commenced the design, development and marketing of the "Souliers" line of footwear for women. In 1990, he 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. Brown attended American University, receiving a BS in Marketing and Public Communications in 1976.

ARVIND DHARIA, Director and Chief Financial Officer, attended the University of Baroda in India and received a Bachelor's degree in 1969. In 1972, Mr. Dharia received his Masters of Business Administration from the University of West Palm Beach in Florida. From January 1988 to November 1988, Mr. Dharia was a Senior Accountant/ Auditor with Fred M. Roth CPA firm. From December 1988 to September 1992, Mr. Dharia was Assistant Controller of Millennium III Real Estate Corp. Mr. Dharia joined Steven Madden, Ltd. in October 1992 and became a Director in December 1993.

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 Barbaro 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.

YVES LEVENSON, has been President of Diva Acquisition Corp., a wholly owned subsidiary of the Company, since April, 1996. From 1994 to 1996, Mr. Levenson was the Vice-President of Diva International, Inc. which owned, among

other brands, the David Aaron(R) brand that has been nationally distributed since 1992. From 1982 to 1994, Mr. Levenson owned and managed retail stores in the New York metropolitan area, which catered to fashionable urban customers.

JOHN L. MADDEN, Director, graduated in 1968 from Philadelphia College of Textiles and Sciences with a Bachelor's degree in Management and Marketing. In 1969 he attended the New York Institute of Finance. From 1968 to 1970, Mr. Madden was staff analyst for Rittmaster Investment Corp. From 1970 to 1974, Mr. Madden was Director of Transit Sales for the Qonaar Corp. From 1974 to 1979, Mr. Madden served as President and Chief Operating Officer of Madden Security Systems, Inc. From September 1979 to February 1990, Mr. Madden served as a registered representative in various capacities at the E.F. Hutton Group, Smith Barney, Paine Webber and Dean Witter. 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. In May 1994, Mr. Madden rejoined GKN Securities, Inc. as Vice President of Investments. Mr. Madden is the brother of Steven Madden, the Company's President, Chairman of the Board and Chief Executive Officer.

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 1988-1989; 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.

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 Meldisco Shoes, Perry Shoes, and Fasco Shoes.

GARY DELUCA, was a director of the Company from March 1994 until April 1996, and a consultant to the Company from May 1995 to April 1996. Mr. DeLuca has served as a corporate consultant to wholesalers and retailers of textiles, home products and fashion merchandise. He has overseen the implementation of

various administrative systems, such as automated distribution, point-of-sale systems, franchising programs, internal operating systems and computer processing for institutions in the financial area and retail field. In November 1993, Mr. DeLuca joined the Dollar Time Group, Inc. as Chief Operating Officer and in January 1994, Mr. DeLuca became President.

Any loans to officers, directors or 5% stockholders will be for a bona fide business purpose approved by a majority of the disinterested members of the Board of Directors. Further, any future transactions with officers, directors or 5% shareholders will be on terms no less favorable to the Company than could be obtained by third parties.

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, 1996, 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.
11.1	Computation of Per Share Earnings
21.0	Subsidiaries of Registrant
24.01	Consent of Richard A. Eisner & Company, LLP.

* 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.

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 28, 1997

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 28, 1997
/s/ Arvind Dharia Arvind Dharia	Chief Financial Officer and Director	March 28, 1997
/s/ John L. Madden John L. Madden	Director	March 28, 1997
/s/ Les Wagner Les Wagner	Director	March 28, 1977
/s/Rhonda Brown Rhonda Brown	Chief Operating Officer and Director	March 28, 1997
/s/John Basile John Basile	Director of Operations and Director	March 28, 1997
/s/ Peter Migliorini Peter Migliorini	Director	March 28, 1997

STEVEN MADDEN, LTD. AND SUBSIDIARIES

- I N D E X -

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 at December 31, 1996, 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 at December 31, 1996, 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.

New York, New York
February 14, 1997

STEVEN MADDEN, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1996

A S S E T S

Current assets:	
Cash and cash equivalents (Note A[5])	$ 6,150,996
Accounts receivable - nonfactored (net of allowance for doubtful accounts of $188,372) (Note A[3])	323,160
Due from factor (net of allowance for doubtful accounts of $137,000 (Note C)	5,059,922
Inventories (Note A[6]	2,757,178
Prepaid advertising (Note J)	350,000
Prepaid expenses and other current assets	548,657
Prepaid taxes (Note F)	623,301
Total current assets	15,813,214
Property and equipment, net (Notes A[4] and B)	2,128,199
Other assets:	
Prepaid advertising, less current portion (Note J)	1,769,480
Deferred taxes (Note F)	451,400
Deposits and other	301,128
Cost in excess of fair value of net assets acquired (net of accumulated amortization of $72,654) (Note K)	1,897,106
Total other assets	4,419,114
T O T A L	$22,360,527

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Note payable (Note K)	$ 644,839
Current portion of lease payable (Note E)	34,521
Accounts payable and accrued expenses	888,322
Accrued bonuses	433,336
Other current liabilities	92,486
Total current liabilities	2,093,504
Lease payable, less current portion (Note E)	165,605
	2,259,109
Commitments and contingencies	
Stockholders' equity (Note D):	
Common stock - $.0001 par value, 10,000,000 shares authorized, 7,833,594 issued and outstanding	783
Additional paid-in capital	17,769,378
Unearned compensation	(320,284)
Retained earnings	3,108,266
Treasury stock at cost (101,800 shares)	(456,725)
Total stockholders' equity	20,101,418
T O T A L	$22,360,527

The accompanying notes to financial statements
are an integral part hereof.

STEVEN MADDEN, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	1996	1995
Net sales	$ 45,822,605	$38,734,766
Cost of sales	31,342,504	25,911,007
Gross profit (Note J)	14,480,101	12,823,759
Other revenue	950,675	378,316
Operating expenses	(13,998,449)	(7,451,249)
Income from operations	1,432,327	5,750,826
Interest income	321,935	167,302
Interest (expense)	(162,049)	(264,640)
(Loss) on sale of net assets (Note I)		(104,348)
Income before provision for income taxes	1,592,213	5,549,140
Provision for income taxes	533,540	1,792,615
NET INCOME	$ 1,058,673	$ 3,756,525
Net income per share of common stock:		
Primary	$0.14	$0.45
Assuming full dilution	$0.14	$0.44
Weighted average common shares outstanding:		
Primary	10,177,516	9,431,234
Assuming full dilution	10,177,516	9,520,237

The accompanying notes to financial statements
are an integral part hereof.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

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

	Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)
	Shares	Amount		
Balance - December 31, 1994.	5,512,304	$551	$ 6,874,513	$(1,706,932)
Exercise of stock options and warrants	903,472	91	3,403,451	
Fair value of options issued in lieu of compensation.			21,250	
Fair value of options issued for consulting services.			50,000	
Tax benefit from exercise of options			255,000	
Net income				3,756,525
Unearned compensation relating to issuance of stock options to employee			575,000	
Amortization of unearned compensation.				
Balance - December 31, 1995.	6,415,776	642	11,179,214	2,049,593
Exercise of stock options and warrants	1,417,818	141	6,342,164	
Common stock purchased for treasury.				
Costs incurred in connection with registration . . .			(40,000)	
Tax benefit from exercise of options			288,000	
Net income				1,058,673
Amortization of unearned compensation.				
BALANCE - DECEMBER 31, 1996.	7,833,594	$783	$17,769,378	$ 3,108,266

	Treasury Stock		Unearned Compensation	Total Stockholders' Equity
	Shares	Amount		
Balance - December 31, 1994.				$ 5,168,132
Exercise of stock options and warrants				3,403,542
Fair value of options issued in lieu of compensation.				21,250
Fair value of options issued for consulting services.				50,000
Tax benefit from exercise of options				255,000
Net income				3,756,525
Unearned compensation relating to issuance of stock options to employee			$(575,000)	- 0 -
Amortization of unearned compensation.			110,964	110,964
Balance - December 31, 1995.			(464,036)	12,765,413
Exercise of stock options and warrants				6,342,305
Common stock purchased for treasury.	101,800	$(456,725)		(456,725)
Costs incurred in connection with registration . . .				(40,000)
Tax benefit from exercise of options				288,000
Net income				1,058,673
Amortization of unearned compensation.			143,752	143,752

BALANCE - DECEMBER 31, 1996.	101,800	$(456,725)	$(320,284)	$20,101,418

The accompanying notes to financial statements are an integral part hereof.

STEVEN MADDEN, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	1996	1995
Cash flows from operating activities:		
Net income	$ 1,058,673	$ 3,756,525
Adjustments to reconcile net income to net cash (used in) operating activities:		
Options issued for consulting services		50,000
Inventory sold in barter transaction		(1,560,000)
Gain on barter transaction (Note J)		(740,000)
Depreciation and amortization	368,020	119,845
Deferred taxes	(233,000)	(218,400)
Deferred compensation	143,752	
Tax benefit from exercise of options	288,000	255,000
Provision for bad debts	714,372	133,931
Deferred rent expense	(35,856)	(14,325)
Loss on disposal of assets (Note I)		104,348
Excess of fair market value over option price on nonqualified stock options granted		132,214
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable - nonfactored	326,122	(644,974)
(Increase) in due from factor	(875,712)	(3,491,574)
(Increase) in inventories	(1,380,790)	(545,819)
(Increase) decrease in prepaid expenses and other assets	(199,369)	122,787
Increase in accounts payable and accrued expenses	279,790	271,960
Increase (decrease) in accrued bonuses	(162,535)	461,420
(Decrease) in other current liabilities	(11,088)	(10,542)
Increase (decrease)in tax liability	(1,154,504)	531,203
Net cash (used in) operating activities	(874,125)	(1,286,401)
Cash flows from investing activities:		
Purchase of property and equipment	(1,179,446)	(531,144)
Acquisition of lease rights	(200,000)	
Acquisition of subsidiary	(1,076,043)	
Repayment of debt assumed in acquisition	(476,286)	
Net cash (used in) investing activities	(2,931,775)	(531,144)
Cash flows from financing activities:		
Proceeds from options and warrants exercised - net	6,302,305	3,403,542
Purchase of treasury stock	(456,725)	
Repayments of lease obligations	(11,898)	
Net cash provided by financing activities	5,833,682	3,403,542
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,027,782	1,585,997
Cash and cash equivalents - beginning of year	4,123,214	2,537,217
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 6,150,996	$ 4,123,214
Supplemental disclosure of noncash investing and financing activities:		
Acquisition of leased assets	$ 193,760	
Note issued in connection with acquisition	644,839	
Sale of assets for a note receivable (Note I)		$ 750,000
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	162,049	264,640
Income taxes	1,115,929	1,227,231

The accompanying notes to financial statements are an integral part hereof.

(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 in the preparation of financial statements:

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] Allowance for doubtful accounts:

The Company maintains an allowance based on management's periodic review of factored and nonfactored accounts receivable.

[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, depreciation and amortization:

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.

(continued)

(NOTE A) - Summary of Significant Accounting Policies:

[7] Primary net income per share of common stock:

Primary net income per share of common stock is computed utilizing the modified treasury stock method. Primary net income per share is based on the weighted average number of shares outstanding during each year and the assumed exercise of all stock options and warrants less the number of treasury shares assumed to be purchased with the proceeds (limited to 20% of the outstanding shares) with the remaining proceeds assumed to be invested in government securities.

[8] Concentration of credit risk:

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

The Company purchases approximately 80% of their inventory from two suppliers in Brazil and Mexico.

The Company has sales to a customer which represents approximately 17% and 16% of sales and 28% and 14% of accounts receivable at December 31, 1996 and December 31, 1995, respectively.

[9] Impairment of long-lived assets:

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. 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.

[10] Fair value of financial instruments:

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

(NOTE B) - Property and Equipment:

The major classes of assets and accumulated depreciation and amortization at December 31, 1996 are as follows:

Leasehold improvements	$1,562,299

(continued)

Machinery and equipment.	194,681
Furniture and fixtures	211,312
Computer equipment	326,517
Equipment under capital lease.	216,809
T o t a l.	2,511,618
Less accumulated depreciation and amortization.	383,419
Property and equipment - net	$2,128,199

(NOTE C) - Due From Factor:

The Company has a factoring agreement whereby 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 with recourse, these transfers of accounts receivable 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 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, 1996 and December 31, 1995, no shares were available for the granting of additional options under the 1993 Plan.

(NOTE D) - Stockholders' Equity:

(continued)

[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 option can be granted for more than five years to a stockholder owning 10% or more of the Company's outstanding common stock.

During 1996, 300,000 options were granted and at December 31, 1996 30,000 options were available for grant.

[3] 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 represents the difference between the exercise price and the fair value of the stock on the date of grant as determined by management, and is classified as a component of stockholders' equity. The unearned compensation is being amortized over four years, however, there is no charge to earnings since the amount which would otherwise be recorded as compensation will reduce the President's bonus. Should such bonus not be sufficient to offset the amortization in any of the four years, the President will be required to pay to the Company an amount equal to the shortage.

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 vest 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.

In addition, during 1995, the Company issued options to purchase an aggregate of 329,000 shares of its common stock to officers, directors and a sales consultant.

(continued)

(NOTE D) - Stockholders' Equity:

[4] Stock Options:

Information relating to stock options is as follows:

	1996		1995	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding at January 1	2,963,500	$5.06	244,000	$1.87
Granted	510,000	$5.86	3,029,000	$4.98
Exercised	(165,000)	$2.37	(287,000)	$1.83
Cancelled	(1,590,000)	$6.80	(22,500)	$1.50
Outstanding at December 31	1,718,500	$3.93	2,963,500	$5.06
Shares exercisable	1,718,500	$3.93	1,351,000	$3.13

[5] 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 $5,950,000 and $2,928,242, 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.

(NOTE D) - Stockholders' Equity:

[6] Stock-based compensation:

(continued)

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 1995 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 the (2) fair value of additional stock options in future years. The average fair value of options granted in 1996 and 1995 was approximately $3.06 and $3.44, respectively. The following pro forma

information gives effect to 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 73%, risk free interest rates of 5.75% - 7.08% for 1995 and 5.98% - 6.82% for 1996, and expected life of 1 1/2 to 5 years.

	1996	1995
Net income:		
As reported.	$1,058,673	$3,756,525
Pro forma.	135,416	719,800
Net income per share:		
As reported.	.14	.45
Pro forma.	.05	.13

(NOTE E) - Leases:

[1] Capital leases:

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

1997.	$ 52,320
1998.	52,320
1999.	50,292
2000.	47,136
2001.	42,302
Total minimum lease payments. . . .	244,370
Less amounts representing interest.	44,244
Present value of minimum lease payments	200,126
Less current maturities	34,521
Capital lease obligation, less current maturities	$165,605

(NOTE E) - Leases:

(continued)

[2] Operating leases:

Future minimum annual lease payments under noncancelable operating leases consist of the following at December 31, 1996:

1997	$ 926,417
1998	623,485
1999	570,035
2000	560,441
2001	584,852
Thereafter	2,787,633
T o t a l	$6,052,863

Rent expense for the years ended December 31, 1996 and December 31, 1995 was $662,355 and $218,306, respectively.

(NOTE F) - Income Taxes:

The 1996 and 1995 income tax provision consists of the following:

	1996	1995
Current:		
Federal	$ 509,860	$1,315,750
State and city	256,680	695,265
T o t a l	766,540	2,011,015
Deferred:		
Federal	(101,000)	(140,961)
State and city	(132,000)	(77,439)
T o t a l	(233,000)	(218,400)
Total provision for income taxes	$ 533,540	$1,792,615

(NOTE F) - Income Taxes:

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

	December 31,	
	1996	1995

(continued)

Income taxes at federal statutory rate	34.0%	34.0%
State income taxes - net of federal income tax benefit	5.9	8.3
Nondeductible items	1.6	.2
Net operating loss carryforward benefit.	(4.6)	
(Decrease) in valuation allowance		(9.9)
Other	(3.4)	(.3)
Effective rate.	33.5%	32.3%

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, 1996 and 1995:

	1996	1995
Deferred tax liabilities:		
Accelerated depreciation.	$(22,000)	$(30,783)
Prior year's change to accrual accounting.		(58,986)
Deferred tax assets:		
Reserves.	169,200	83,720
Deferred rent		18,645
Deferred compensation	230,500	205,804
Net operating loss benefit.	73,700	
Net deferred tax asset	$451,400	$218,400

The income tax benefit realized from the utilization of the Company's net operating loss carryforward amounted to approximately $767,000 for the year ended December 31, 1995.

(NOTE G) - Commitments and Contingencies:

[1] Employment agreements:

The Company has an employment agreement with its President/Chief Executive Officer which was amended in August 1995 to extend the term through September 2005. The employment agreement provides for salary commitments of $2,875,000 over the next nine years. Additionally, the agreement

provides

(continued)

for a bonus plan based on graduated rates at specified levels of net revenue. The bonus is payable in cash or in the Company's stock at the option of the officer. Bonus payable in stock is to be based on 2/3 of the market price on the date of election. Bonuses payable for the years ended December 31, 1996 and December 31, 1995 have been reduced by $143,572 and $110,964, respectively, for the amortization of the unearned compensation discussed in Note D[3].

In June 1994, the Company entered into a two-year employment agreement which automatically extends for an additional one year period with its Director of Operations. The agreement provides 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.

In September 1995, 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 1996, 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.

At December 31, 1996 and December 31, 1995, the Company accrued $433,336 and $571,871, respectively, in bonuses to officers. For the years ended December 31, 1996 and December 31, 1995, the Company has included in its operating expenses, bonuses to employees of $551,988 and $930,774, respectively.

[2] Letters of credit:

Open letters of credit at December 31, 1996 and December 31, 1995 amount to approximately $2,903,000 and $903,000, respectively.

(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 and the revenues and expenses of the Company's leather division that was sold in December 1995.

In 1996 "Wholesale" includes the revenues, expenses and identifiable

(continued)

assets of Diva International, Inc. which was acquired in April 1996.

	Wholesale	Retail	Other	Consolidated
Year ended December 31, 1996:				
Net sales.	$39,476,670	$3,805,257	$2,540,678	$45,822,605
Operating earnings . . .	527,272	548,675	356,380	1,432,327
Identifiable assets. . .	19,184,582	2,292,841	545,644	22,023,067
Depreciation and amortization	293,286	74,484	250	368,020
Capital expenditures . .	379,256	794,386	5,804	1,179,446
Year ended December 31, 1995:				
Net sales.	35,307,077	1,951,312	1,476,377	38,734,766
Operating earnings (losses)	4,822,433	1,089,827	(161,434)	5,750,826
Identifiable assets. . .	14,273,840	331,415	(75,411)	14,529,844
Depreciation and amortization	85,108	31,974	2,763	119,845
Capital expenditures . .	248,219	238,339	44,586	531,144

(NOTE I) - Marlboro Leather Division:

On December 1, 1995, the Company signed an agreement to sell the net assets and name of its Marlboro leather division for a $750,000 promissory note. The note was to be paid with an initial payment of $400,000, plus accrued interest at the rate of 8%, within 10 days of the purchaser consummating a private placement of the purchaser's debt or equity of at least $1,500,000. An additional $350,000 was to be paid in three equal annual installments commencing December 1, 1996. The purchaser was not in compliance with the terms of the note as no payments were received as of December 31, 1996. The Company has exercised its rights and seized the collateral in accordance with the terms of the security agreement. The collateral consisted of accounts receivable and leather inventory which will be used in the Company's operations. As a result of the default, the Company recorded a write-off of $550,000 on the original promissory note.

(NOTE J) - Barter Transaction:

In December 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 K) - Acquisition of Diva International, Inc.:

(continued)

On April 1, 1996 the Company acquired all the outstanding common stock of Diva International, Inc. ("Diva"), a women's shoe company. The purchase price consisted of an initial payment of $1,000,000 in cash and a note of $644,839, as adjusted, payable within one year. The note is payable in cash or shares of the Company's common stock at the Company's option (using a price of $7.50 per share). The transaction was accounted for as a purchase. The following unaudited pro forma information for the years ended December 31, 1996 and 1995 give effect to the merger as though the merger occurred at January 1, 1995:

	December 31,	
	1996	1995
Pro forma revenue.	$46,213,677	$42,116,228
Pro forma net income	973,035	3,471,919
Pro forma net income per share . .	0.13	0.42

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of July 1, 1996, by and between Steven Madden, Ltd., a New York corporation (the "Company"), and RHONDA J. BROWN, an individual residing at 86 Chapel Road, Manhasset, NY 11030 (the "Executive").

W I T N E S E T H :

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

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

NOW, THEREFORE, the parties mutually agree as follows:

SECTION 1. EMPLOYMENT. The Company hereby employs Executive and the Executive hereby accepts such employment, as the Chief Operating Officer of the Company, subject to the terms and conditions set forth in this Agreement. The Executive shall have the additional title of President of the Company upon mutual agreement of the parties hereto which the Company anticipates will be within 12 months following the date hereof.

SECTION 2. DUTIES; BOARD SEAT. The Executive shall serve as the Chief Operating Officer of the Company (and, when

applicable, the Chief Operating Officer and President of the Company) and shall be responsible for all tasks and activities which are customarily the responsibility of a Chief Operating Officer, or Chief Operating Officer and President, as the case may be, including without limitation, [describe duties]. If requested by the Company, the Executive shall serve on the Board of Directors or any committee thereof without additional compensation. Within four (4) months following the date hereof, the Company shall use its best efforts to have the Executive elected to the Company's Board of Directors, including, if necessary, the Company shall call a Special Meeting of the stockholders of the Company to elect the Executive as a member of the Board of Directors. During the term of this Agreement, the Executive shall devote all of her business time to the performance of her duties hereunder unless otherwise authorized by the Chief Executive Officer of the Company. Notwithstanding the foregoing, the Executive may donate her time and efforts to charitable causes so long as such endeavors do not effect her ability to perform her duties under this Agreement.

SECTION 3. TERM OF EMPLOYMENT; VACATION.

(a) The term of the Executive's employment shall be for

a period of thirty six (36) months commencing on the date hereof,

subject to earlier termination by the parties pursuant to Sections 5 and 6 hereof (the "Term").

(b) The Executive shall be entitled to three (3) weeks vacation during each year of the Term.

SECTION 4. COMPENSATION OF EXECUTIVE.

4.1 SALARY. The Company shall pay to Executive a base salary of Two Hundred Thousand ($200,000) Dollars per annum (the "Base Salary"), subject to increases in accordance with the terms of the last sentence of this Section 4.1, 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 makes payment of its regular payroll in the regular course of business. Commencing on the first 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.

4.2 SIGNING BONUS. Upon the execution of this Agreement, the Executive shall receive options (the "Initial Options") to purchase 60,000 shares of the Company's Common Stock at an exercise price equal to the closing bid price of the Company's Common Stock on June 28, 1996, as quoted on The Nasdaq

Stock Market, which Initial Options shall be subject to the terms and conditions of an Option Agreement, substantially in the form of Exhibit A attached hereto. The shares of Common Stock issuable upon exercise of the Initial Options shall be registered by the Company with the Securities and Exchange Commission for sale to the public and one third of the Initial Options shall vest on each annual anniversary of the date hereof commencing on July 1, 1997.

4.3 PERFORMANCE BONUSES.

(a) During the term of this Agreement, the Executive shall be entitled to receive a cash performance bonus based upon the Company's consolidated earnings before the payment of interest or taxes or deduction for depreciation ("EBIT-D") as reflected on the Company's quarterly reports on Form 10-QSB. By August 31,

1997, 1998 and 1999, the Executive shall be entitled to receive a Cash Bonus equal to four percent (4%) of the amount by which the aggregate EBIT-D for the four (4) calendar quarters ending on the most recent June 30th exceed EBIT-D for the four (4) calendar quarters ending on the preceding June 30th (the "Cash Bonus"). For example, if EBIT-D for the four (4) calendar quarters ending June 30, 1997 equals $5,000,000, and EBIT-D for the four calendar quarters ending June 30, 1996 was $2,000,000, the Executive would

be entitled to receive a Cash Bonus equal to $120,000 ($5,000,000 - $2,000,000 = $3,000,000 x .04 = $120,000). Notwithstanding the foregoing, under no circumstances will the Executive be entitled to receive a Cash Bonus in excess of 150% of the Base Salary (i.e. if the Base Salary is $200,000 during the year commencing on July 1, 1996 and ending June 30, 1997, the maximum Cash Bonus for such year will be $300,000).

(b) On each August 30th during the Term the Executive shall be entitled to receive options (the "Option Bonus") to purchase a number of shares of Common Stock equal to the dollar amount of the Cash Bonus (i.e. if the Cash Bonus equals $120,000, then the Executive shall receive an option to purchase 120,000 shares of Common Stock). The options comprising the Option Bonus shall vest quarterly over a two year period commencing on the September 30th following the date of grant and be exercisable at a price equal to the average closing bid price of the Company's shares of Common Stock for the five trading days ending on the August 29th prior to the date of grant. The Performance Options will be substantially in the form of Exhibit B attached hereto.

(c) If at any time during the Term the Company's EBIT-D aggregated over four (4) consecutive fiscal quarter equals or exceeds $20,000,000 (the "Earnings Target"), the Executive shall

be entitled to receive an additional bonus equal to two hundred thousand dollars ($200,000) (the "Additional Bonus"). In such an event, the Company shall pay to the Executive the Additional Bonus within sixty (60) days following the end of the fiscal quarter during which the Earnings Target was satisfied. In no event shall the Executive be eligible to receive the Additional Bonus on more than one occasion during the Term.

4.4 EXPENSES. During the Term, the Company shall promptly reimburse the Executive for all reasonable and necessary travel expenses and other disbursements incurred by the Executive on behalf of the Company, in performance

of the Executive's duties hereunder, assuming Executive has received prior approval for such travel expenses and disbursements by the Company to the extent possible consistent with corporate practices with respect to the reimbursement of expenses incurred by the Company's senior executives. In the event that the Company relocates its executive offices and requires the Executive to relocate outside the New York Metropolitan area, the Company will reimburse the Executive for all reasonable out-of-pocket expenses incurred by her as a result of such relocation.

4.5 BENEFITS. The Executive shall be permitted during the Term to participate in any hospitalization or disability

insurance plans, health programs, pension plans, bonus plans or similar benefits that may be available to other executives of the Company, subject to such eligibility rules as are applied to senior managers generally.

5. DISABILITY OF THE EXECUTIVE. If the Executive is incapacitated or disabled by accident, sickness or otherwise so as to render the Executive mentally or physically incapable of performing the services required to be performed under this Agreement for a period of 90 consecutive days or 180 days in any period of 360 consecutive days (a "Disability"), the Company may, at the time or during the period of such Disability, at its option, terminate the employment of the Executive under this Agreement immediately upon giving the Executive written notice to that effect.

6. TERMINATION.

(a) The Company may terminate the employment of the Executive and all of the Company's obligations under this Agreement at any time for Cause (as hereinafter defined) by giving the Executive notice of such termination, with reasonable specificity of the details thereof. "Cause" shall mean (i) the Executive's wilful misconduct which could reasonably be expected to have a material adverse effect on the business and affairs of

the Company, (ii) the Executive's disregard of lawful instructions of the Company's Board of Directors or Chief Executive Officer consistent with the Executive's responsibilities under this Agreement relating to the business of the Company or neglect of duties or failure to act, which, in each case, could reasonably be expected to have a material adverse effect on the business and affairs of the Company, (iii) the Executive engages in conduct which is publicly

abusive to the Company's Chief Executive Officer or members of the Board of Directors, (iv) the commission by the Executive of an act constituting common law fraud, or a felony, or criminal act against the Company or any affiliate thereof or any of the assets of any of them, (v) the Executive's abuse of alcohol or other drugs or controlled substances, or conviction of a crime involving moral turpitude, (vi) the Executive's material breach of any of the agreements contained herein or (vii) the Executive's death or resignation hereunder; provided however, that if the Executive resigned as a result of a material breach by the Company of this Agreement, such resignation shall not be considered "Cause" hereunder. A termination pursuant to Section 6(a)(i), (ii), (iv), (v) (other than as a result of a conviction of a crime involving moral turpitude) or (vi) shall take effect

30 days after the giving of the notice contemplated hereby unless the Executive shall, during such 30-day period, remedy to the reasonable satisfaction of the Board of Directors of the Company the misconduct, disregard, abuse or breach specified in such notice; provided, however, that such termination shall take effect immediately upon the giving of such notice if the Board of Directors of the Company shall, in its reasonable discretion, have determined that such misconduct, disregard, abuse or breach is not remediable (which determination shall be stated in such notice). A termination pursuant to Section 6(a)(iii), (v) (as a result of a conviction of a crime involving moral turpitude) or (vii) shall take effect immediately upon the giving of the notice contemplated hereby.

(b) The Company or the Executive may terminate the employment of the Executive and all of the Company's obligations under this Agreement (except as hereinafter provided) at any time during the Employment Period without Cause by giving the Executive or the Company, as appropriate, written notice of such termination, to be effective 15 days following the giving of such written notice. For convenience of reference, the date upon which any termination of the employment of the Executive pursuant to Sections 5 or 6 shall be effective shall be hereinafter

referred to as the "Termination Date". In the event the Executive resigns as a result of a material diminution of the Executive's responsibility or a material breach of the Agreement by the Company, such resignation shall be treated as a termination by the Company other than for Cause, as described in Section 7(c) provided the Executive shall have given the Company thirty (30) days written notice, and the Company shall not have cured the breach within such thirty (30) day period.

7. EFFECT OF TERMINATION OF EMPLOYMENT.

(a) Upon the termination of the Executive's employment for Cause, neither the Executive nor the Executive's beneficiaries or estate shall have any further rights to compensation under this Agreement or any claims against the Company arising out of this Agreement, except the right to receive (i) the unpaid portion of the Base Salary provided for in Section 4.1, earned through the Termination Date (the "Unpaid Salary Amount"), and (ii) reimbursement for any expenses for which the Executive shall not have theretofore been reimbursed, as provided in Section 4.6 (the "Expense Reimbursement Amount").

(b) Upon the termination of the Executive's employment for a Disability, neither the Executive nor the Executive's beneficiaries or estate shall have any further rights to

compensation under this Agreement or any claims against the Company arising out of this Agreement, except the right to receive (i) the Unpaid Salary Amount, (ii) the Expense Reimbursement Amount and (iii) accrued and unpaid amounts owed to the Executive under Section 4.3 hereof through the Termination Date, including a pro-rata entitlement to such amounts equal to the award to which the Executive would have been entitled at the end of the applicable fiscal period pro-rated for the period of the Executive's employment during such fiscal period (collectively, the "Additional Payments").

(c) Upon the termination of the Executive's employment for other than Cause or a Disability, neither the Executive nor the Executive's beneficiaries or estate shall have any further rights to compensation under this Agreement or any claims against the Company arising out of this Agreement, except the Executive shall have the right to receive (i) the Unpaid Salary Amount, (ii) the Expense Reimbursement Amount, (iii) severance compensation equal to the Base Salary (including medical benefits) for the lessor of (a) the term of this Agreement (as if this Agreement was not terminated) and (b) twelve (12) months, 50% of which is payable on the Termination Date and 50% of which is payable in equal monthly installments during the period

commencing thirty (30) days following the Termination Date and continuing for a period of twelve months thereafter, and (iv) the Additional Payments.

SECTION 8. DISCLOSURE OF CONFIDENTIAL INFORMATION. Executive recognizes that she 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 her in confidence. In consideration of the obligations undertaken by the Company herein, Executive will not, at any time, during or after her employment hereunder, reveal, divulge or make known to any person, any information acquired by Executive during the course of her employment, which is treated as confidential by the Company, including but not limited to its customer list, not otherwise in the public domain, other than in the ordinary of business during her employment hereunder. 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 her hereunder are special, unique and extraordinary. The parties confirm that it is reasonably necessary for the protection of Company that Executive agree, and accordingly, Executive does hereby agree, that she shall not, directly or indirectly, at any time during the term of the Agreement and the "Restricted Period" (as defined in Section 9(e) below):

(i) except as provided in Subsection (d) below, be engaged in the sale, marketing or distribution of footwear products or provide technical assistance, advice or counseling regarding the footwear industry in any state in the United States in which the Company or any affiliate thereof transacts business, either on her own behalf or as an officer, director, stockholder, partner, consultant, associate, employee, owner, agent, creditor, independent contractor, or co-venturer of any third party which directly or indirectly competes with the Company; or

(ii) employ or engage, or cause or authorize, directly or indirectly, to be employed or engaged, for or on behalf of herself or any third party, any employee or agent of Company or any affiliate

thereof.

(b) Executive hereby agrees that she will not, directly or indirectly, for or on behalf of herself or any third party, at any time during the term of the Agreement and during the Restricted Period solicit any customers of the Company or any affiliate thereof.

(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 or indirectly, in the aggregate, an amount not exceeding five percent (5%) of the issued and outstanding voting securities of any class of any company whose voting capital stock is traded on a national securities exchange or on the over-the-counter market other than securities of the Company.

(e) The term "Restricted Period," as used in this Section 9, shall mean the period of Executive's actual employment

hereunder plus (i) in the event the Executive voluntarily terminates her employment (other than a resignation as a result of a material breach of the Agreement) by the Company, one year, (ii) in the event the Executive's employment is terminated without Cause or for a Disability, twelve (12) months, and (iii) in the event the Executive's employment is terminated with cause, twenty four (24) months.

(f) The provisions of this Section 9 shall survive the end of the Restricted Period as provided in Section 9(e) hereof.

(g) In the event that the Executive breaches the terms and provisions of Section 9(a)(i) above, the Company may terminate all unvested options comprising the Option Bonus as liquidated damages hereunder.

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 her of Sections 8 or 9 of this Agreement shall entitle Company, 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 Company seeks enforcement thereof, such restriction shall be limited to the extent permitted by law.

10.2 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.

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 Company, supersedes all prior understandings and agreements, whether oral or written, between Executive and Company, 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 Headings. 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 laws 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 of the same instrument.

10.9 Separability. If any of the restrictions contained in this Agreement 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 Agreement shall then be enforceable in the manner contemplated hereby.

[INTENTIONALLY LEFT BLANK]

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

STEVEN MADDEN, LTD.

By: /s/ Steven Madden

Name: Steven Madden
Title: Chief Executive Officer

/s/ Rhonda J. Brown

Rhonda J. Brown

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of April 1, 1996, by and between Diva Acquisition Corp., a Delaware corporation (the "Company"), and Yves Levenson, an individual residing at 1246 E. 24th Street, Brooklyn, NY 11219 (the "Executive").

W I T N E S E T H :

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

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

NOW, THEREFORE, the parties mutually agree as follows:

Section 1. Employment. The Company hereby employs Executive and the Executive hereby accepts such employment, as the President of the Company, subject to the terms and conditions set forth in this Agreement.

Section 2. Duties. The Executive shall serve as President and shall properly perform such duties as may be lawfully assigned to his from time to time by the Chief Executive Officer and the Board of Directors of the Company. If requested

by the Company, the Executive shall serve on the Board of Directors or any committee thereof without additional compensation. During the term of this Agreement, the 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; Vacation.

The term of the Executive's employment shall be for a period of thirty six (36) months commencing on the date hereof (the "Term"), subject to earlier termination by the parties pursuant to Sections 5 and 6 hereof. The Executive shall be entitled to four (4) weeks vacation during each year of the Term.

Section 4. Compensation of Executive.

4.1 Salary. The Company shall pay to Executive a base salary of One Hundred Thirty Thousand ($130,000) Dollars per annum (the "Base Salary"), less such deductions as shall be required to be withheld by applicable law and regulations. All salaries payable to Employee shall be paid at such regular weekly, biweekly or semi-monthly time or times as the Company makes payment of its regular payroll in the regular course of business. Commencing on January 1, 1997, and on each January 1 thereafter during the term of this Agreement, the

Base Salary

shall increase by 10% in the event that the Company reports a net profit on its annual financial statements.

4.2 Annual Profit Sharing Bonus. During the term of this Agreement, the Executive shall be entitled to receive an annual profit sharing bonus equal to two percent (2%) of the Company's annual net pre-tax profit (the "Profit Sharing Bonus"). The Profit Sharing Bonus shall be calculated based upon the financial statements prepared by the Company's independent auditors and paid to the Executive within 90 days following the end of the Company's fiscal year end. At the Executive's option, the Company shall pay the Profit Sharing Bonus in cash, or in shares of Common Stock of Steven Madden, Ltd. ("Common Stock") having a Fair Market Value (as hereinafter defined) equal to the Profit Sharing Bonus.

4.3 Annual Performance Bonus. In the event that the Company achieves certain sales targets, the Executive will be entitled to receive a certain number of shares of Common Stock of Steven Madden, Ltd., the parent corporation of the Company (the "Bonus Shares"). The annual sales targets are set forth below and set forth opposite such targets is the Market Value (as hereinafter defined) of the Bonus Shares:

Annual Sales Target	Market Value of Bonus Shares
7,000,000	$66,666
9,000,000	$133,332
11,000,000	$199,998

"Market Value" shall mean the average closing bid price for the shares of Common Stock of Steven Madden, Ltd. for the five trading days ending on December 31 during the year for which the Bonus Shares are earned, as reported on The Nasdaq Stock Market. The Bonus Shares shall be issued within 90 days following the end of the Company's fiscal year for which the Bonus Shares were earned. In no event shall the Executive be entitled to receive pursuant to this Section 4.3 more than a number of shares of Common Stock having a Fair Market Value of $199,998. Should the Executive's employment terminate prior to the end of the Term, the Company and SML agree to the terms and conditions contained in that certain letter agreement dated as of the date hereof and attached hereto as Exhibit A (the "Letter Agreement"). Up to two thirds (2/3) of the annual performance bonus payable pursuant to this Section 4.3 shall, at the Executive's option, be paid in cash.

4.4 Expenses. During the Term, the Company shall reimburse the Executive for all reasonable and necessary travel expenses and other disbursements incurred by the Executive on behalf of the Company, in performance of the Executive's duties hereunder, assuming Executive has received prior approval for such travel expenses and disbursements by the Company's President to the extent possible. With the respect to Executive's use of an automobile in connection with the performance of his duties hereunder, the Company shall, at the direction of the 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. in an amount not to exceed $500 per month.

4.5 Benefits. The Executive shall be permitted during the Term to participate in any hospitalization or disability insurance plans, health programs, pension plans, bonus plans or similar benefits that may be available to other executives of the Company or SML to the extent the Executive is eligible under the terms of such plans or programs. The Company agrees to provide the Executive with a paid health insurance plan comparable to insurance courage granted to Executives of SML.

5. Disability of the Executive. If the Executive is incapacitated or disabled by accident, sickness or otherwise so as to render the Executive mentally or physically incapable of performing the services required to be performed under this Agreement for a period of 180 days in any period of 360 consecutive days (a "Disability"), the Company may, at the time or any time thereafter, at its option, terminate the employment of the Executive under this Agreement immediately upon giving the Executive written notice to that effect.

6. Termination.

(a) The Company may terminate the employment of the Executive and all of the Company's obligations under this Agreement at any time for Cause (as hereinafter defined) by giving the Executive written notice of such termination, with reasonable specificity of the details thereof. "Cause" shall mean (i) the Executive's misconduct could reasonably be expected to have a material adverse effect on the business and affairs of the Company, (ii) the Executive's disregard of lawful instructions of the Company's Board of Directors or President

consistent with the Executive's position relating to the business of the Company or neglect of duties or failure to act, which, in each case, could reasonably be expected to have a material adverse effect on the business and affairs of the

Company, (iii) the commission by the Executive of an act constituting common law fraud, or a felony, or criminal act against the Company or any affiliate thereof or any of the assets of any of them, (iv) the Executive's continued abuse of alcohol or other drugs or controlled substances, or conviction of a crime involving moral turpitude that is determined by the Company's Board of Directors to likely have a material adverse effect on the business or prospects of the Company, (v) the Executive's material breach of any of the agreements contained herein or (vi) the Executive's resignation hereunder. A termination pursuant to Section 6(a)(i), (ii), (iv) (other than as a result of a conviction of a crime involving moral turpitude) or (v) shall take effect 30 days after the giving of the notice contemplated hereby unless the Executive shall, during such 30-day period, remedy to the reasonable satisfaction of the Board of Directors of the Company the misconduct, disregard, abuse or breach specified in such notice; provided, however, that such termination shall take effect immediately upon the giving of such notice if the Board of

Directors of the Company shall, in its sole discretion, have determined that such misconduct, disregard, abuse or breach is not remediable (which determination shall be stated in such notice). A termination pursuant to Section 6(a)(iii), (iv) (as a result of a conviction of a crime involving moral turpitude) or (vi) shall take effect immediately upon the giving of the notice contemplated hereby.

(b) The Company may terminate the employment of the Executive and all of the Company's obligations under this Agreement (except as hereinafter provided) at any time during the Employment Period without Cause by giving the Executive written notice of such termination, to be effective 15 days following the giving of such written notice. For convenience of reference, the date upon which any termination of the employment of the Executive pursuant to Sections 5 or 6 shall be effective shall be hereinafter referred to as the "Termination Date".

7. Effect of Termination of Employment.

(a) Upon the termination of the Executive's employment (i) for Cause or (ii) a Disability, neither the Executive nor the Executive's beneficiaries or estate shall have any further rights under this Agreement or any claims against the Company arising out of this Agreement, except the right to receive (i) the unpaid

portion of the Base Salary provided for in Section 4.1, computed on a pro rata basis to the Termination Date (the "Unpaid Salary Amount"), (ii) reimbursement for any expenses for which the Executive shall not have theretofore been reimbursed, as provided in Section 4.4 (the "Expense Reimbursement Amount") and (iii) accrued and unpaid amounts owed to the Executive under Sections 4.2 and 4.3 hereof through the Termination Date.

(b) Upon the termination of the Executive's employment for

other than Cause or a Disability, neither the Executive nor the Executive's beneficiaries or estate shall have any further rights under this Agreement or any claims against the Company arising out of this Agreement, except the right to receive (i) the Unpaid Salary Amount, (ii) the Expense Reimbursement Amount, (iii) severance compensation equal to the Base Salary for the term of this Agreement (as if this Agreement was not terminated), 50% of which is payable on the Termination Date and 50% of which is payable in equal monthly installments during the period commencing on the first day of January following the Termination Date and ending on the following December 1, and (iv) accrued and unpaid amounts owed to the Executive under Sections 4.2 and 4.3 hereof through the Term of this Agreement (the "Bonus Amounts"). In the event that this Agreement is terminated as a result of he

death of the Executive, the Executive's estate shall be entitled to (i) the Unpaid Salary Amount and (ii) the Expense Reimbursement Amount, and the Bonus Amounts shall be paid in accordance with the terms of the Letter Agreement.

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 his in confidence. In consideration of the obligations undertaken by the Company 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 the Company, including but not limited to its customer list, 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 his hereunder are special, unique and extraordinary. The parties confirm that it is reasonably necessary for the protection of Company that Executive agree, and accordingly, Executive does hereby agree, that he shall not, directly or indirectly, at any time during the term of the Agreement and the "Restricted Period" (as defined in Section 9(e) below):

(i) except as provided in Subsection (c) below, be engaged in the footwear industry or provide technical assistance, advice or counseling regarding the footwear industry in any state in the United States in which the Company or any affiliate thereof is engaged in business, 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 employee or agent of Company or any affiliate thereof.

(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 of the Agreement and during the Restricted Period solicit any customers of the Company or any affiliate thereof.

(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 or indirectly, in the aggregate, an amount not exceeding five percent (5%) of the issued and outstanding voting securities of any class of any company whose voting capital stock is traded on a national securities exchange or on the over-the-counter market other than securities of the Company.

(e) The term "Restricted Period," as used in this Section 9, shall mean the period of Executive's actual employment hereunder plus: (i) in the event that the Executive is terminated

for Cause, the twelve (12) months after the Termination Date or (ii) in the event that the Executive is terminated without Cause or for a Disability, the shorter of (a) the remainder of the Term of the Agreement or (b) six (6) months after the Termination Date.

(f) The provisions of this Section 9 shall survive 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 his of Sections 8 or 9 of this Agreement shall entitle Company, 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 Company seeks enforcement thereof, such restriction shall be limited to the extent permitted by law.

10.2 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.

10.3 Entire Agreement. This Agreement and the Letter Agreement constitutes and embody the full and complete understanding and agreement of the parties with respect to Executive's employment by Company, supersedes all prior understandings and agreements, whether oral or written, between Executive and Company, 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 Headings. 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 laws 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 of the same instrument.

10.9 Letter Agreement. Should the Executive's employment terminate prior to the end of the Term, the Company and SML agree to the terms and conditions contained in that certain letter agreement dated as of the date hereof and attached hereto as Exhibit A.

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

DIVA ACQUISITION CORP.

By:

Name:
Title:

Yves Levenson

The undersigned guarantees the Company's performance with respect to Sections 4.1, 4.2, 4.3 and 10.9 only:

STEVEN MADDEN, LTD.

By:

Name:
Title:

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER dated this 1st day of April 1996 by and among Steven Madden, Ltd., a New York corporation ("SML"), Diva Acquisition Corp., a Delaware corporation (the "Purchaser"), Nadine Levenson, and Yves Levenson (collectively, the "Sellers"), and Diva International, Inc., a New York corporation (the "Company").

W I T N E S S E T H:

WHEREAS, the authorized capital stock of the Company consists of 200 shares of common stock, of which 100 shares are currently issued and outstanding (the "Diva Shares"); and

WHEREAS, the Sellers own in the aggregate all of the Diva Shares; and

WHEREAS, the respective Board of Directors of the Purchaser and the Company have determined that it is in the best interests of their respective stockholders for the Company to merge with and into the Purchaser (the "Merger"); and

WHEREAS, in furtherance of the foregoing, the parties hereto desire to effect the Merger, on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and of the terms and conditions herein contained, the parties hereto agree as follows:

ARTICLE I

THE MERGER

1.1 THE MERGER. Upon the terms and subject to the conditions hereof, and in accordance with the relevant provisions of the New York Business Corporation Law (the "NYBCL") and the Delaware General Corporation Law the ("DGCL"), the Company shall be merged with and into the Purchaser (the "Merger") as soon as practicable following satisfaction of the conditions set forth in Article III hereof. Following the Merger, the Purchaser shall continue as the surviving corporation (the "Surviving Corporation") under the name " David Aaron, Ltd." and shall continue its existence under the laws of the State of Delaware, and the separate corporate existence of the Company shall cease.

1.2 EFFECTIVE TIME. The Merger shall be consummated by filing with the Secretary of State of the States of New York and Delaware a certificate of

merger or certificate of ownership and merger, in such form as is required by, and executed in accordance with, the relevant provisions of the NYBCL and the DGCL (the effective time of the merger in the State of Delaware being hereinafter referred to as the "Effective Time").

1.3 CERTIFICATE OF INCORPORATION AND BY-LAWS. The Certificate of Incorporation and By-laws of the Purchaser shall be the Certificate of Incorporation and By-laws of the Surviving Corporation.

1.4 DIRECTORS AND OFFICERS. The directors and officers of the Purchaser immediately prior to the Effective Time shall be the directors and officers of the Surviving Corporation until their respective successors are duly elected or appointed and qualified, except that (i) the Sellers shall be officers of the Surviving Corporation in accordance with the terms of the employment agreements between the Sellers and the Purchaser, a form of which are attached hereto as Exhibit A (the "Employment Agreements"), and (ii) SML agrees to elect two (2) individuals identified by the Sellers to the Board of Directors of the Purchaser immediately following the Effective Time, such Board of Directors to be comprised of a total of 5 directors.

1.5 CONVERSION OF COMMON STOCK OF THE COMPANY. All of the Diva Shares immediately prior to the Effective Time, by virtue of the Merger and without any action on the part of the holders thereof, shall be converted into the right to receive an aggregate of (a) $875,000 in immediately available funds (the "Initial Payment Amount") and (b) $1,400,000 (the "Subsequent Payment Amount") on the first anniversary (the "Subsequent Payment Date") of the date of closing (the "Closing Date"). The Initial Payment Amount and the Subsequent Payment Amount shall be collectively referred to as the Purchase Price. On the Subsequent Payment Date, the Purchaser may pay the Subsequent Payment Amount (i) in cash, or (ii) by delivering a 186,667 shares of Common Stock of SML (the "SML Shares"). SML will use its best efforts to have sufficient shares authorized in the event the Purchaser elects to deliver the SML Shares in satisfaction of its obligations hereunder.

1.6 EXCHANGE OF SHARES. Upon surrender to Purchaser of a certificate representing the Diva Shares (the "Certificates"), duly executed and completed in accordance with instructions from Purchaser, the holder of such Certificate shall be issued in exchange therefor a percentage of the Initial Payment Amount and the Subsequent Payment Amount equal to such holder's percentage ownership of the Diva Shares. No fractional shares or cash payment in lieu thereof shall be paid by Purchaser in connection with the Merger.

1.7 PURCHASE PRICE ADJUSTMENTS. (a) As soon as practicable, but in no event later than thirty (30) days following the Closing, the Sellers shall deliver (at their expense) to the Surviving Corporation balance sheets for each of the Company and Design Studio dated as of the

Closing Date prepared by Seller's accounting firm reasonably satisfactory to Purchaser (the "Closing Date Balance Sheets"). The Closing Date Balance Sheets shall accurately reflect the assets, liabilities and stockholders equity of the Company and Design Studio as of the Closing Date and shall be prepared by Seller's accountants in accordance with past practice and in conformity with generally accepted accounting principals, except that (i) accounts receivable as reflected on the Closing Date Balance Sheet shall not include any receivables which were acquired more than 150 days prior to the Closing Date; and (ii) inventory as reflected on the Closing Date Balance Sheet shall not include any inventory which was purchased more than 180 days prior to Closing Date. The Closing Date Balance Sheets shall be reasonably acceptable to the Purchaser and its independent auditors. In the event of any dispute between the Sellers and the Purchaser with respect to the Closing Date Balance Sheet, the parties shall hire a third party independent auditor, whose fees and expenses shall be borne equally by the Sellers and the Purchaser. If the amount of the combined net assets of the Company and Design Studio (total assets minus total liabilites) as reflected on the Closing Date Balance Sheets (the "Net Asset Amount") is less than $515,000, then the Initial Payment Amount shall be reduced by an amount (the "Initial Adjustment Amount") equal to $515,000 minus the Net Asset Amount. Purchaser may set-off the Initial Adjustment Amount against the Subsequent Payment Amount due to Sellers and/or the amounts due to Sellers under the Employment Agreements.

(b) In addition, within one hundred five (105) days following the Closing, the Purchaser shall determine the total amount collected by the Purchaser from the accounts receivable of the Company as of the Closing Date. The Purchase Price shall be adjusted by (i) increasing the Subsequent Payment Amount by the amount of accounts receivables actually collected by the Purchaser during the ninety (90) day period following the Closing which were as of the Closing 150 or more days past due and (ii) decreasing the Subsequent Payment Amount by the amount of accounts receivable which were as of the Closing less than 150 days past due and were uncollected by the Purchaser during the ninety (90) day period following the Closing. The amounts calculated in accordance with the terms of (i) and (ii) contained in the preceding sentence, shall be netted against each and should the result be greater than $10,000, the Subsequent Payment Amount shall be decreased the amount by which (ii) exceeds (i), or the Subsequent Payment Amount shall be increased the amount by (i) exceeds (ii).

1.8 REGISTRATION RIGHTS. At the Closing, the Sellers shall be provided with certain rights to have the SML Shares registered with the Securities and Exchange Commission for sale to the public pursuant to an agreement among SML and the Sellers, a copy of which is attached hereto as Exhibit A (the "Registration Rights Agreement").

1.9 ESCROW OF SML SHARES. Upon the issuance of the SML Shares, if any, the Purchaser shall deposit with Bernstein & Wasserman, LLP, as escrow agent (the "Escrow Agent"), one-half (1/2) of the SML Shares as security for Sellers performance of their obligations under Article V of this Agreement. The SML Shares shall be held for a period of not more than eighteen (18) months following the Closing Date pursuant to an escrow agreement among the Escrow Agent, the Sellers and the Purchaser dated as of the Closing Date , a copy of which is

attached hereto as Exhibit B (the "Escrow Agreement").

1.10 COVENANT OF SML. SML covenants that any SML Shares issued to the Sellers hereunder shall be duly authorized, fully paid and non-assessable shares of SML and will not be subject to preemptive or similar rights.

1.11 GUARANTEE OF SML. SML guarantees the performance of all of obligations of the Purchaser hereunder, including but not limited to, the payment of the Subsequent Payment Amount or delivery of the SML Shares.

ARTICLE II

CLOSING

2.1 Closing and Closing Date. (a) The closing (the "Closing") shall take place at the offices of Bernstein & Wasserman, LLP, 950 Third Avenue, New York, NY 10022 on the Closing Date, or at such other place, date or time as the parties may agree in writing. The parties agree that, at or before the Closing, they shall perform all such acts and execute and deliver all such documents as may be required to consummate the transactions contemplated hereby.

(b) At the Closing, (i) the Purchaser shall deliver the Cash Portion to the Sellers and (ii) the Sellers shall deliver the Diva Shares, duly endorsed in blank, to the Purchaser.

(c) At the Closing, the appropriate parties hereto shall execute and deliver or cause to be executed and delivered, all documents and instruments necessary to consummate the transactions contemplated hereby, including, without limitation:

(i) the Employment Agreements between the Purchaser and the Sellers, David Levenson and David Siskin, respectively;

(ii) the Registration Rights Agreement; and

(iii) stock purchase agreement with respect to the acquisition by Purchaser or an affiliate thereof all of the outstanding shares of capital stock of Design Studio, S.L., a Spanish corporation (the "Stock Purchase Agreement").

2.2 ADDITIONAL ACTIONS TO BE TAKEN ON THE CLOSING DATE.

(a) CLOSING CERTIFICATE OF SELLERS AND THE COMPANY. The Sellers and the Company shall have delivered to the Purchaser a certificate signed by the Sellers and the Chief Executive Officer of the Company, as requested by the Purchaser, dated the Closing Date, stating (i) that no material adverse change

has occurred in the condition (financial or otherwise), results of operations, business, performance or properties of the Company since December 31, 1995 and

(ii) all of the representations, warranties and covenants of each of the Sellers and the Company contained in this Agreement are true, complete and correct as of the Closing Date.

(b) CLOSING CERTIFICATE OF PURCHASER. The Purchaser shall have delivered to the Seller and the Company a certificate signed by the Chief Executive Officer of the Purchaser, as requested by the Seller and the Company, dated the Closing Date, stating (i) that no material adverse change has occurred in the condition (financial or otherwise), results of operations, business, performance or properties of the Purchaser since September 30, 1995, and (ii) all of the representations, warranties and covenants of the Purchaser contained in this Agreement are true, complete and correct as of the Closing Date.

(c) LEGAL OPINION. The Purchaser shall have received the legal opinions of legal counsel to the Sellers and the Company in form and substance satisfactory to the Purchaser.

(d) SHAREHOLDER CONSENTS. The Purchaser shall have received a consent to the transactions contemplated by this agreement signed by all of the shareholders of the Company. The Sellers shall have received a consent to the transactions contemplated by this agreement signed by the sole shareholder of the Purchaser.

(e) MINUTE AND STOCK TRANSFER BOOKS. The Company shall deliver to the Purchaser all corporate minute and stock transfer books, bank books, financial and bank records, bookkeeping and accounting records, copies of all federal, state and local tax returns and amendments thereto, and all other books and records of the Company, certified by the Secretary of the Company to be true, correct and complete as of the Closing Date.

(f) CERTIFICATE OF INCORPORATION; GOOD STANDING. The Company shall deliver to the Purchaser a copy of the Certificate of Incorporation of the Company and a Certificate of Good Standing each certified by the Secretary of State of the State of New York as of a date not more than five (5) days prior to the Closing Date.

(g) OTHER DOCUMENTS. The Company shall deliver to the Purchaser such other documents as shall reasonably be requested by the Purchaser in order effectively to carry out the transactions contemplated by this Agreement, duly executed by the Company.

ARTICLE III

CONDITIONS TO CLOSING

3.1 OBLIGATIONS OF THE PURCHASER. The Purchaser's obligation to close shall be subject to the satisfaction of all of the following terms and conditions on or prior to the Closing Date:

(a) The Purchaser shall have received the resolution of the Board of Directors of the Company certified by the Secretary thereof dated as of the date of the Closing, authorizing such party to enter into this Agreement and to effect all of the transactions contemplated hereby;

(b) The Purchser shall have received a long-form Certificate of Good Standing dated within five (5) business days prior to the date of Closing from the Secretary of State of the State of New York certifying that the Company is in good standing in such State.

(c) All representations and warranties made in this Agreement by the Sellers and the Company shall be true as of the Closing Date as though such representations and warranties had been made on and as of the Closing Date, and, as of the Closing Date, neither the Sellers nor the Company shall have violated or shall have failed to perform in accordance with any covenant contained in this Agreement.

(d) There shall have been no material adverse change in the business, operations condition (financial and otherwise) or prospects of the Company prior to the Closing Date.

(e) The Company and the Sellers shall have furnished Purchaser with opinion of counsel for the Company and the Sellers in form and substance reasonably satisfactory to Purchaser.

3.2 OBLIGATIONS OF THE SELLERS. The Seller's obligation to close shall be subject to the satisfaction of all of the following terms and conditions on or prior to the Closing Date:

(a) All representations and warranties made in this Agreement by the Purchser and SML shall be true as of the Closing Date as though such representations and warranties had been made on and as of the Closing Date, and, as of the Closing Date, neither the Purchaser nor SML shall have not violated or shall have failed to perform in accordance with any covenant contained in this Agreement.

(b) There shall have been no material adverse change in the business, operations, condition (financial and otherwise) or prospects of the Company prior to the Closing Date.

(c) The Seller shall have received the resolutions of the Board of Directors of the Purchaser and SML certified by the respective Secretary thereof dated as of the date of the Closing, authorizing such parties to enter into this Agreement and to effect all of the transactions contemplated hereby.

(d) The Seller shall have received a long-form Certificate of Good Standing dated within five (5) business days prior to the date of Closing from the Secretary of State of the State of Delaware certifying that the Purchaser is in good standing in such State.

3.3 CONDITIONS TO EACH PARTY'S OBLIGATION TO EFFECT THE MERGER. The obligations of each party to effect the Merger are subject to the satisfaction or waiver, if permissible, at or prior to the Effective Time, of the following conditions:

(a) this Agreement shall have been approved and adopted by the requisite affirmative vote of the stockholders of the Company in accordance with the NYBCL and the Purchaser in accordance with the DGCL; and

(b) no statute, rule, regulation, order, decree, ruling or injunction shall have been promulgated, enacted, or issued by any court or governmental authority of competent jurisdiction which is in effect and has the effect of prohibiting or restraining the consummation of the Merger.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

4.1 REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE SELLERS. Each of the Company and the Sellers jointly and severally represent and warrant to the Purchaser and SML as follows:

(a) ORGANIZATION AND QUALIFICATION. The Company is a corporation validly existing and in good standing under the laws of the State of New York, and has all requisite corporate power and authority to own, lease and operate its properties and assets as are presently owned, leased and operated, and carry on its business as it is now presently conducted and is proposed to be conducted. The Company is duly qualified to do business in each jurisdiction in which the nature of its business or properties make such qualification necessary or desirable, except to the extent where the failure to do so would not have a material adverse effect on the business or affairs of any one of the Company.

(b) CAPITALIZATION; SUBSIDIARIES AND AFFILIATES. For each of the Company and its subsidiaries, if any, the name, par value, number of authorized

shares and number of issued and outstanding shares of each class of its capital stock is set forth on Schedule 4.1(b). All of the issued and outstanding shares of each of the Company and its subsidiaries are duly authorized, validly issued, fully paid and non-assessable. All of the Diva Shares are owned beneficially and of record by the Shareholders as set forth on Schedule 4.1(b) free and clear of any liens or encumbrances. There are no securities outstanding which are exchangeable or

exercisable for, or convertible into shares of capital stock of the Company. Except as set forth on Schedule 4.1(b), each of the Company has no subsidiaries nor does any affiliate thereof own any equity interest in any other corporation, partnership, joint venture or other entity. As used herein, the term "affiliate" shall have the same meaning as ascribed to it in Rule 12b-2 of the Securities Exchange Act of 1934, as amended.

(c) DUE AUTHORIZATION. The Company has the full legal right, capacity, authority and power and all requisite corporate authority and approval required to enter into, execute and deliver this Agreement, and any other agreement or instrument contemplated or required hereunder or thereunder. Each of the Board of Directors and all of the stockholders of the Company has approved of the entering into of this Agreement, and the transactions herein and therein contemplated. Assuming the due authorization, execution and delivery by the other parties to this Agreement, this Agreement and all other agreements and instruments when duly executed and delivered by each of the Company and the Sellers, shall constitute a valid and binding obligation of the Company and the Sellers enforceable against them in accordance with its and their terms, subject to the qualifications that enforcement of the rights and remedies created hereby is subject to (i) bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting the rights and remedies of creditors, and (ii) general principles of equity (regardless of whether such enforcement is considered in a proceeding in equity or at law).

(d) NO CONFLICT. Except as set forth on Schedule 4.1(d), neither the execution or delivery of this Agreement, nor the performance by the Company of the transactions contemplated herein or therein shall:

(i) violate or conflict with any of the provisions of the Certificate of Incorporation or By-laws or other organization documents of the Company;

(ii) violate, conflict, result in acceleration of, or entitle any party to accelerate the maturity or the cancellation of the performance of any obligation under, or result in the creation or imposition of any lien in or upon the assets or any of the properties or assets of the Company or constitute a default (or give rise to an event which might, with the passage of time or the giving of notice or other rise, constitute a default) under, any mortgage, indenture, deed of trust, lease, contract, agreement, loan or credit arrangement or agreement, license or other instrument or any order, judgment, regulation or ruling of any

governmental or regulatory body to which the Company is a party or by which any of its property or Assets may be effected or is bound; and

(iii) violate any judgment, order, writ, injunction, decree, statute, rule or regulation applicable to the Company or any of its assets.

(e) FINANCIAL STATEMENTS; CLOSING DATE BALANCE SHEET. The Company has heretofore delivered to the Purchaser audited financial statements, which are accountants compilations, relating to the period ending December 31, 1995 (the "Financial Statements"). The

Financial Statements fairly present the financial position and results of operations of the Company for the periods presented. The Closing Date Balance Sheet shall be prepared in accordance with generally accepted accounting principles ("GAAP") and shall not reflect any changes in the financial condition, results of operations, business, prospects, assets or liabilities of the Company from those reflected on the Financial Statements, except for (i) any such changes in the ordinary course, none of which, individually or in the aggregate, would have a material adverse effect on the Company or its prospects, and (ii) the Closing Date Adjustments.

(f) LIABILITIES. Except as disclosed on Schedule 4.1(f), or as reflected on the Financial Statements delivered by the Company to the Purchaser, the Company does not have any direct or indirect indebtedness, liability, claim, loss, damage, deficiency, obligation or responsibility, fixed or unfixed, choate or inchoate, liquidated or unliquidated, secured or unsecured, accrued, absolute, contingent or otherwise (collectively herein referred to as the "Liabilities"), that is not fully or accurately reflected or reserved against on the Financial Statements. Except as disclosed on Schedule 4.1(f), the Company does not have any Liability whether or not the kind required by generally accepted accounting principles to be set forth on financial statements, other than Liabilities incurred since December 31, 1995, in the ordinary course of business, none of which is a Liability resulting from a breach of contract, breach of warranty, tort or infringement claim.

(g) OUTSTANDING CLAIMS. Except as set forth on Schedule 4.1(g), there are no outstanding orders, judgments, injunctions, investigations, awards or decrees of any court, governmental or regulatory body or arbitration tribunal by which the Company, or any of its securities, assets, properties or businesses is bound. Except as set forth on Schedule 4.1(g), there are no actions, suits, claims, investigations, legal, administrative or arbitrational proceedings pending or, to the best of the Company's knowledge, threatened (whether or not the defense thereof or liabilities with respect thereof are covered by insurance) against or effecting the Company, or any of its assets or properties that, individually or in the aggregate, could, if determined adversely to the Company would have a material adverse effect on the Company or its business or to the best of any of the Company's knowledge, there are no facts which are

likely to give rise to any action, suit, claim, investigation or legal, administration or arbitrational proceeding.

(h) INTELLECTUAL PROPERTY. Schedule 4.1(h) set forth all patents, trademarks, service marks, tradenames, copyrights, logos and the like, and all applications for any of the foregoing, and all permits, grants and licenses, or other rights held or owned by or running to or from the Company or the Sellers relating to any of the foregoing that are necessary in connection with the business of the Company (collectively herein referred to "Intellectual Property"), correct and complete copies of which have heretofore been delivered or made available to the Purchaser and/or its counsel. Except as otherwise set forth on Schedule 4.1(h), the Company is the sole and exclusive owner of all rights to such Intellectual Property and no patent, invention, trademark, service mark or tradename under any person or entity infringes upon, or is infringed upon by, any of the Company's Intellectual Property and the Company has not received any notice of any

claim of infringement of any other person or entity with respect to the Company's Intellectual Property or in the process of confidential information of the Company and the Company does not know of any basis for any such charge or claim after undergoing diligent investigation with respect thereto. Except for the Intellectual Property set forth on Schedule 4.1(h), no other tangible property or Intellectual Property rights are required for the Company to conduct its business in the ordinary course as it is currently contemplated. The Company's continued use of its Intellectual Property shall not infringe upon or violate the proprietary rights of any third party or entity and the Company has not received any notice or inquiry indicated or claiming the manufacture, sale or use of any product which incorporates the Intellectual Property infringes upon the patent or other intellectual or intangible property rights of any other third person or entity. No approval or consent of any person or entity is needed in connection with the Company's exploitation of its Intellectual Property and all such Intellectual Property shall continue to be in full force and effect following of the consummation of the transactions contemplated by this Agreement.

(i) CONTRACTS AND AGREEMENTS. Schedule 4.1(i) sets forth all written contracts and other written agreements (and, to the best knowledge of the Company, any oral agreement) and arrangements to which either the Company is a party or by or to which the Company or any of its assets or properties is bound or subject (collectively, the "Material Agreements"). True and complete copies of all of the Material Agreements have been delivered to the Purchaser. Except as disclosed on Schedule 4.1(i), all of the Material Agreements are valid, subsisting, in full force and effect and binding upon the parties thereto in accordance with their terms, subject to the qualifications that enforcement of the rights and remedies created thereby is subject to: (x) bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting the rights and remedies of creditors and (y) general principles of

equity (regardless of whether such enforcement is considered in a proceeding in equity or at law) and the Company has satisfied in full or provided for all of its liabilities and obligations thereunder requiring performance prior to the date hereof in all material respects, is not in default under any of them, which default singly or with other such defaults could have a material adverse effect on the business or financial condition of the Company, nor does any condition exist that with notice or lapse of time or both would constitute such a default. To the best knowledge of the Company and the Sellers, no other party to any such contract or other agreement is in default thereunder, which default singly or with other such defaults could have a material adverse effect on the business or financial condition of the Company. Except as identified on Schedule 4.1(i), no approval or consent of any person is needed for all of the Material Agreements to continue to be in full force and effect following the consummation of the transactions contemplated by this Agreement.

(j) EMPLOYEES. Except as set forth on Schedule 4.1(j), the Company is not a party to, and there does not otherwise exist, any agreements with any labor organization, collective bargaining or similar agreement with respect to employees of the Company. Schedule 4.1(j) sets forth the name and current annual salary, including any bonus, if applicable, of all present officers and employees of the Company whose current annual salary, including any

promised, expected or customary bonus, equals or exceeds $50,000. The Company is in compliance in all material respects with its obligations under all Federal, state, local and foreign statutes and ordinances, executive orders, regulations and common law governing its employment practices with respect to the Company. During the past three (3) years, the Company has not suffered or sustained any labor dispute resulting in any work stoppage and no such work stoppage is, to the best knowledge of the Company, threatened. To the best knowledge of the Company, there are no attempts being made to organize any employees presently employed by the Company.

(k) ERISA; HEALTH BENEFIT PLANS. Except as set forth on Schedule 4.1(k), the Company does not sponsor, maintain or have any obligation to contribute to, or have any liability under, or is otherwise a party to any plan, fund, program, understanding, policy, arrangement, contract or commitment whether qualified or not qualified for federal income tax purposes, whether formal or informal, whether for the benefit of a single individual or more than one individual, which is the nature of any employee benefit plan of any type whatsoever, including but not limited to any such plan under the Employer Retirement Income Security Act of 1974, as amended. All health and health related employee benefits and other costs have been paid or adequately reserved for on the Financial Statements.

(l) INSURANCE. Schedule 4.1(l) sets forth a list and brief description (specifying the insurer, the policy number or covering note number with respect to binders and the amount of any deductible, describing the pending

claims if such claims exceed applicable policy limits, setting forth the aggregate amount paid out under each such policy through the date hereof and the aggregate limit, if any, of the insurer's liability thereunder) of all policies or binders of fire, liability, product liability, workmen's compensation, vehicular, unemployment and other insurance held by or on behalf of the Company. Such policies and binders are valid and enforceable in accordance with their terms in all material risks and liabilities to the extent and in respect of amount, types and risks insured, as are customary in the industries in which the Company operates. The Company is not in default with respect to any material provision contained in any such policy or binder or has failed to give any notice or present any claim under any such policy or binder in due and timely fashion. Except for claims disclosed on Schedule 4.1(l), there are no outstanding unpaid claims under any such policy or binder which have gone unpaid for more than forty-five (45) days or as to which the carrier has disclaimed liability.

(m) TAX MATTERS. Except as disclosed on Schedule 4.1(m):

(i) all tax returns required to be filed with respect to the Company have been duly filed. All such tax returns were in all material respects true, complete and correct and filed on a timely basis. The Company (i) has paid all taxes that are due, or claimed or asserted by the IRS or any domestic or foreign taxing authority (each constituting a "Taxing Authority") to be due, from the Company for the periods covered by such tax returns or (ii) has duly and fully provided reserves adequate to pay all taxes in accordance with generally accepted accounting principles;

(ii) The Company has complied in all material respects with all applicable laws relating to withholding of taxes (including withholding taxes pursuant to Sections 1441 and 1442 of the Internal Revenue Service Code of 1986, as amended (the "Code") and similar provisions under any other applicable laws) and the payment thereof over to the Taxing Authorities, and have, within the time and in the manner prescribed by law, withheld from employee wages and paid over to the proper governmental or regulatory authorities all amounts required;

(iii) the income tax returns of the Company have not been audited or examined by any Taxing Authority (including the IRS) for any period for which the applicable statute of limitations period has not yet expired and no statute of limitations for any such period has been extended. There are no outstanding agreements, waiver or arrangements extending the statutory period of limitation applicable to any claim for, or the period for the collection or assessment of, taxes of the Company for any taxable period;

(iv) prior to the execution of this Agreement, the Company has delivered to the Purchaser true and complete copies of each of (i) the most recent audit report by any Taxing Authority, including but not limited to the IRS, relating to any taxes of the Company and (ii) the tax returns with respect

to any tax filed by or on behalf of the Company for any period which the applicable statute of limitations period has not yet expired;

(v) to the knowledge of the Company, no assessment of tax is proposed against the Company or any of its respective assets and properties;

(vi) no election under Section 338 of the Code (or any predecessor provision) has been made by or with respect to the Company or any of its respective assets or properties;

(vii) no power of attorney currently in force has been granted by the Company concerning any tax matter; and

(viii) all transactions that could give rise to an understatement of federal or state income Tax (within the meaning of Section 6662 of the Code and applicable provisions of state law) have been adequately disclosed on the tax returns filed by or on behalf of the Company.

(n) REAL PROPERTY AND LEASES. The Company does not own real property in connection with the conduct of its business. Set forth hereto on Schedule 4.1(n) is a complete schedule of all leases constituting all of the leased real property used in the conduct of its business. All such leases are valid, subsisting and in full force and effect and in accordance with terms and no default has occurred and no condition or event exists which, after notice or lapse of time or both, will constitute a default or event of default under any such lease. All payments with respect to all leased property due or accrued have been paid by the Company.

(o) INVENTORY, MATERIAL ASSETS AND LEASED PROPERTY. Schedule 4.1(o) sets forth all inventory, material assets and leased property (other than real property) of the Company

as of December 31, 1995. All inventory and material assets are in good condition and can be used for their intended purpose or sold in the ordinary course of business at normal and customary gross profit margins. All leases for leased property are valid, subsisting and in full force and effect and in accordance with their terms and no default or event of default has occurred and no condition or event exists which, after notice or lapse of time or both, will constitute a default or event of default under any such lease. All payments with respect to leased property due or accrued have been paid by the Company.

(p) NO PENDING TRANSACTIONS. Except for this Agreement, the Company is not a party to or bound by any agreement, negotiations, discussions, or undertaking with respect to the sale of any of its securities or all or a potion of any of its assets to any other person or entity.

(q) ACCURACY OF INFORMATION. Neither this Agreement, nor any

Schedule or Exhibit, nor the Financial Statements to this Agreement contains an untrue statement of a material fact or omits a material fact necessary to make the statements contained herein or therein not misleading. All statements, documents, certificates or other items prepared or supplied by the Company with respect to the transactions contemplated hereby are true, correct and complete and contain no untrue statement of a material fact or omit a material fact necessary to make the statements contained therein not misleading.

(r) COMPLIANCE WITH ALL LAWS. The Company has complied in all respects with all applicable federal, state, local and foreign laws, regulations and ordinances or any requirement of any governmental or regulatory body, court or arbitrator affecting its business or assets, the failure to comply with which could have a material adverse effect on the business or the assets of the Company. None of the Company nor any of its representatives, agents, employees or affiliates has made or agreed to make any payment to any person which would be unlawful.

(s) LICENSES AND PERMITS. Schedule 4.1(s) sets forth a list of the governmental permits, licenses, registrations and other governmental consents (federal, state, local and foreign) which the Company has obtained and which are necessary in connection with its operations and properties, and no others are required. All such permits, licenses, registrations and consents are in full force and effect and in good standing, and except as separately identified on Schedule 4.1(s), shall continue to be in full force and effect and in good standing following the consummation of the transactions contemplated by this Agreement. The Company has not received any notice of any claim of revocation or has knowledge of any event which might give rise to such a claim.

(t) ACCOUNTS RECEIVABLE. All of the accounts and notes receivable of the Company represent amounts receivable for merchandise actually delivered or services actually provided (or, in the case of non-trade accounts or notes representing amounts receivable in respect of other bona-fide business transactions), have arisen in the ordinary course of business,

are not subject to any written counterclaims, discounts or offsets and have been billed and are generally due within thirty (30) days after such billing. All such receivable are fully collectible in the amount and ordinary course of businesses. Schedule 4.1(t) sets forth all accounts receivables which have not been collected within 150 days of the date of invoice with respect thereto.

(u) ENVIRONMENTAL MATTERS. Except as set forth on Schedule 4.1(u): (i) the Company is not in violation of, or delinquent in respect to, any environmental law existing on the date hereof, which violation or delinquency would have a material adverse effect on the business or financial condition of the Company, (ii) the Company has not received any written communication, whether from a governmental or regulatory body, citizens group, employee or otherwise, that alleges that the Company is not in full compliance with the

environmental laws, and (iii) the Company has obtained all permits, licenses and other authorizations required under the environmental laws, the absence of which would have a material adverse effect on the Company or its financial condition, and Schedule 4.1(u) includes a list of all such permits, licenses and other authorizations. Except as set forth on Schedule 4.1(u), the Company has not received any written notice by any person alleging the Company has or may have liability, with respect to environmental matters either directly or indirectly, by contract or by operation of law. There are no present and have been no past release of any material of environmental concern that could form the basis of any claim of liability against the Company under environmental laws or the common law, which, if decided adversely to the Company, would have a material adverse effect in the business or financial condition of the Company.

(v) NO BROKERS. The Company has conducted all negotiations relating to this Agreement and has carried on the transactions contemplated hereby without intervention of any person acting on behalf of the Company and such matter as to give rise to any valid claim against the Purchaser or SML for any brokers', investment banking, or finders' fee in connection with the execution of this Agreement or the transactions contemplated hereby. The Company agrees to indemnify and hold harmless the Purchaser and SML in connection with the foregoing.

(w) TRANSACTIONS WITH AFFILIATES. Except as set forth on Schedule 4.1(w), no affiliate of the Company has: (i) borrowed money from or loaned money to the Company which remains outstanding; (ii) any contractual or other claim, express or implied, of any kind whatsoever against or by any affiliate; (iii) any interest in any property or Assets used by any affiliate in their respective businesses; or (iv) engaged in any other transaction with any affiliate.

(x) INVENTORY. All of the inventory of the Company and its subsidiaries, including, without limitation, finished goods, work-in-process, materials and parts and supplies reflected on the Financial Statements, and all inventory acquired since December 31, 1995 are valued at the lower of cost or market, the cost thereof being determined on a first-in, first-out basis. The value of all absolute materials and materials of below standard quality has been written down in accordance with generally accepted accounting principals. The Company is not under any material liability or obligation with respect to the turn of inventory or merchandise in

possession of wholesalers, distributors, retailers or other customers. Schedule 4.1(x) sets forth all of the Company's inventory purchased more than 180 days prior to the date hereof.

4.2 REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE PURCHASER. Upon the execution hereof, the Purchaser and SML represent and warrant to the Company and Sellers as follows:

(a) Organization and Qualification. The Purchaser and SML are corporations validly existing and in good standing under the laws of the States of Delaware and New York, respectively, and each has all requisite corporate power and authority to (a) own, lease and operate its properties and assets as they are now owned, leased and operated and (b) carry on its business as now presently conducted and is duly qualified to do business in each jurisdiction in which the nature of its business of properties makes such qualification necessary. Purchaser is a wholly owned subsidiary of SML.

(b) Validity and Execution of Agreement. The Purchaser and SML have the full legal right, capacity and power and all requisite corporate authority and approval required to enter into, execute and deliver this Agreement and any other agreement or instrument contemplated hereby, and to perform fully its obligations hereunder and thereunder. The Board of Directors of each Company has approved the transactions contemplated by this Agreement. This Agreement has been duly executed and delivered by the Purchaser and SML and assuming the due authorization and execution by the other parties hereto, it constitutes the valid and binding obligation of the Purchaser and SML enforceable against them in accordance with its terms.

(c) No Conflict. The execution and delivery of this Agreement will not (a) violate or conflict with any of the provisions of the Purchaser's or SML's Certificate of Incorporation or By-Laws or other organizational documents; or (b) violate or conflict with any provision of any domestic or foreign law, rule, regulation, order, judgment, decree or ruling of any court or federal, state, local or foreign governmental or regulatory body applicable to the Purchaser.

4.3 REPRESENTATIONS AND WARRANTIES OF THE SELLERS. Upon the execution hereof, the Sellers represent and warrant to the parties hereto as follows:

(a) Authorization. Each of the Sellers warrant and represent that he/she has the full legal right, power and all authority and approval required to enter into, execute and deliver this Agreement and to perform fully his/or obligations hereunder.

(b) Binding Obligation. Assuming the due execution and delivery of this Agreement by the other parties hereto, this Agreement constitutes the valid and binding obligation of the Sellers, enforceable against the Sellers in accordance with its terms, subject as to enforcement, (i) to bankruptcy, insolvency, reorganization, arrangement, moratorium and other

laws of general applicability relating to or affecting creditors' rights and (ii) to general principles of equity, whether such enforceability is considered in a proceeding in equity or at law.

(c) The Diva Shares. Each of the Sellers warrants and represents that he/she holds the Diva Shares free and clear of all liens, pledges, hypothecations, options, contracts and other encumbrances ("Encumbrances").

4.4 SURVIVAL OF REPRESENTATIONS AND WARRANTIES. All of the representations and warranties, affirmative and negative covenants and agreements of the Company, the Purchaser and the Sellers, set forth herein shall survive the date hereof until the date upon which any liability to which any claim relating to any such representation or warranty, agreement or covenant is barred by all applicable statutes of limitations.

ARTICLE V

INDEMNIFICATION

5.1 INDEMNIFICATION.

(a) The Company and the Sellers agree to jointly and severally indemnify, defend and hold harmless SML and the Purchaser and their respective directors, officers, employees, and any affiliates of the foregoing, and their successors and assigns from and against any and all breaches, losses, liabilities (including punitive or exemplary damages and fines or penalties and any interest thereon), expenses (including reasonable fees and disbursements of counsel and expenses of investigation and defense), claims, liens or other obligations of any nature whatsoever (hereinafter individually, a "Loss" and collectively, "Losses") which, directly or indirectly, arise out of, result from or relate to, any inaccuracy in or any breach of any representation, warranty, covenant or agreement of the Company and the Sellers contained in this Agreement or in any other document contemplated by this Agreement.

(b) The Purchaser and SML agrees to jointly and severally indemnify, defend and hold harmless the Company and the Sellers and its directors, officers, employees, and any affiliates of the foregoing, and their successors and assigns from and against any and all Losses which, directly or indirectly, arise out of, result from or relate to any breach of any representation, warranty, covenant or agreement of SML or the Purchaser contained in this Agreement or in any other document contemplated by this Agreement.

5.2 METHOD OF ASSERTING CLAIMS. The party making a claim under this Article V is referred to as the "Indemnified Party" and the party against whom such claims are asserted under this Article V is referred to as the "Indemnifying Party." All claims by any Indemnified Party under this Article V shall be asserted and resolved as follows:

(a) In the event that any claim or demand for which an Indemnifying

Party would be liable to an Indemnified Party hereunder is asserted against or sought to be collected from such Indemnified Party by a

third party, said Indemnified Party shall with reasonable promptness notify in writing the Indemnifying Party of such claim or demand, specifying the nature of the specific basis for such claim or demand, and the amount or the estimated amount thereof to the extent then feasible (which estimate shall not be conclusive of the final amount of such claim and demand; any such notice, together with any notice given pursuant to Section 5.2(b) hereof, collectively being the "Claim Notice"); provided, however, that any failure to give such Claim Notice will not be deemed a waiver of any rights of the Indemnified Party except to the extent the rights of the Indemnifying Party are actually prejudiced. The Indemnifying Party, upon request of the Indemnified Party, shall retain counsel (who shall be reasonably acceptable to the Indemnified Party) to represent the Indemnified Party, and shall pay the fees and disbursements of such counsel with regard thereto, provided, further, that any Indemnified Party is hereby authorized prior to the date on which it receives written notice from the Indemnifying Party designating such counsel, to retain counsel, whose fees and expenses shall be at the expense of the Indemnifying Party, to file any motion, answer or other pleading and take such other action which it reasonably shall deem necessary to protect its interests or those of the Indemnifying Party until the date on which the Indemnified Party receives such notice from the Indemnifying Party. After the Indemnifying Party shall retain such counsel, the Indemnified Party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party unless (i) the Indemnifying Party and the Indemnified Party shall have mutually agreed to the retention of such counsel or (ii) the named parties of any such proceeding (including any impleaded parties) include both the Indemnifying Party and the Indemnified Party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. The Indemnifying Party shall not, in connection with any proceedings or related proceedings in the same jurisdiction, be liable for the fees and expenses of more than one such firm for the Indemnified Party (except to the extent the Indemnified Party retained counsel to protect its (or the Indemnifying Party's) rights prior to the selection of counsel by the Indemnifying Party). If requested by the Indemnifying Party, the Indemnified Party agrees to cooperate with the Indemnifying Party and its counsel in contesting any claim or demand which the Indemnifying Party defends. No claim or demand may be settled by an Indemnifying Party or, where permitted pursuant to this Agreement, by an Indemnified Party without the consent of the Indemnified Party in the first case or the consent of the Indemnifying Party in the second case, which

consent shall not be unreasonably withheld, unless such settlement shall be accompanied by a complete release of the Indemnified Party in the first case or the Indemnifying Party in the second case. Whether or not such release is obtained, the person whose consent is required may reasonably withhold consent if the proposed settlement would have a material adverse effect on its business or properties.

(b) In the event any Indemnified Party shall have a claim against any Indemnifying Party hereunder which does not involve a claim or demand being asserted against or sought to be collected from it by a third party, the Indemnified Party shall send a Claim Notice with respect to such claim to the Indemnifying Party. If the Indemnifying Party does not notify the Indemnified Party within twenty (20) days of receipt of the Claim Notice that it disputes such claim, the amount of such claim shall be conclusively deemed a liability of the Indemnifying Party hereunder.

(c) So long as any right to indemnification exists pursuant to this Article V, the affected parties each agree to retain all books, records, accounts, instruments and documents reasonably related to the Claim Notice. In each instance, the Indemnified Party shall have the right to be kept informed by the Indemnifying Party and its legal counsel with respect to all significant matters relating to any legal proceedings. Any information or documents made available to any party hereunder, which information is designated as confidential by the party providing such information and which is not otherwise generally available to the public, or which information is not otherwise lawfully obtained from third parties or not already within the knowledge of the party to whom the information is provided (unless otherwise covered by the confidentiality provisions of any other agreement among the parties hereto, or any of them), and except as may be required by applicable law or requested by third party lenders to such party, shall not be disclosed to any third person (except for the representatives of the party being provided with the information, in which event the party being provided with the information shall request its representatives not to disclose any such information which it otherwise required hereunder to be kept confidential).

(d) Notwithstanding the foregoing, the Purchaser may reduce the Subsequent Payment Amount by the amounts owed to the Purchaser by the Sellers under this Article V.

ARTICLE VI

MISCELLANEOUS

6.1 POST-CLOSING FURTHER ASSURANCES. At any time and from time to time after the Closing at the request of any party hereto, the other parties shall, without further consideration, execute and deliver, or cause the execution and delivery of, such other instruments of sale, transfer, conveyance, assignment and confirmation and take or cause to be taken such other action as such requesting party may reasonably deem necessary or desirable in order to effect the transactions herein contemplated.

6.2 NOTICES. Except as otherwise specified herein to the contrary, all notices, requests, demands and other communications required or permitted to be given hereunder shall only be in writing and shall only be effective if given by certified or registered mail, return receipt requested, or by U.S. express mail service, or by private overnight mail service (e.g., Federal Express). Any such notice shall be deemed to have been given (a) on the business day immediately subsequent to mailing if sent by U.S. express mail service or private overnight mail service, or (b) three (3) business days following the mailing thereof, if mailed by certified first class mail, postage prepaid, return receipt requested, all such notices to be sent to the following address (or to such other address or addresses as a party may have advised the other in the manner provided in this Section 6.2):

If to Steven Madden, Ltd. and the Purchaser to:

Steven Madden, President
Steven Madden, Ltd.
52-16 Barnett Avenue
Long Island City, NY 11104

with copies simultaneously by like means to:

Bernstein & Wasserman, LLP
950 Third Avenue
New York, NY 10022

If to the Company or the Sellers to:

Yves Levenson
1246 E. 24th Street
Brooklyn, NY 11210

Nadine Levenson
1385 York Avenue
New York, NY

with copies simultaneously by like means to:

Edmonds & Beier, PC
475 Fifth Avenue
21st Floor
New York, NY 10017
Attn: Robert C. Edmonds, Esq.

6.3 PUBLICITY. No press release or announcement concerning this Agreement or the transactions contemplated hereby shall be made without the prior approval of SML, the Sellers and the Company, which approval shall not be unreasonably withheld or delayed.

6.4 ENTIRE AGREEMENT. This Agreement (including the Exhibits and Schedules) and the agreements, certificates and other documents delivered pursuant to this Agreement contain the entire agreement among the parties with respect to the transactions described herein, and supersede all prior agreements, written or oral, with respect thereto.

6.5 WAIVERS AND AMENDMENTS. This Agreement may be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by a written instrument signed by the parties hereto or, in the case of a waiver, by the party waiving compliance. Not delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof.

6.6 GOVERNING LAW; JURISDICTION AND VENUE. Regardless of the place of execution or performance, 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. All of the parties hereto irrevocably consent to the exclusive jurisdiction and venue of the federal and state courts located in the State of New York, County of New York.

6.7 BINDING EFFECT; NO ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and legal representatives. This Agreement is not assignable except by operation of law and any other purported assignment shall be null and void.

6.8 COUNTERPARTS. This Agreement may be executed by the parties hereto in separate facsimile counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all of the parties hereto.

6.9 EXHIBITS AND SCHEDULES. The Exhibits and Schedules are a part of this Agreement as if fully set forth herein. All references herein to Sections, subsections, clauses, Exhibits and Schedules shall be deemed references to such parts of this Agreement, unless the

context shall otherwise require.

6.10 HEADINGS. The headings in this Agreement are for reference only, and shall not affect the interpretation of this Agreement.

6.11 SEVERABILITY OF PROVISIONS. If any provision or any portion of any provision of this Agreement or the application of such provision or any portion thereof to any person or circumstance shall be held invalid or unenforceable, the remaining portion of such provision and the remaining provisions of this Agreement, or the application of such provision or portion to other persons or circumstances, shall not be affected thereby and shall remain in full force and effect.

6.12 TERMINATION. This Agreement may be terminated by delivering written notice thereof to the other parties to the Agreement if the Effective Time shall not have occurred on or before July 1, 1996; provided, however, that the right to terminate this Agreement will not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Effective Time to occur on or before such date. In the event of the termination and abandonment of this Agreement, shall forthwith become void and have no effect, without any liability on the part of any party hereto or its directors, officers, employees, agents or stockholders. Nothing herein shall relieve any party hereto of any liability for a breach of this Agreement.

6.13 RIGHT OF FIRST REFUSAL. If at any time within three (3) years following the Effective Date, SML receives a bona fide offer (the "Offer") to purchase all of the outstanding shares of common stock of the Purchaser, SML shall notify the Sellers (the "Notice") in writing as to the Offer and provide them with the opportunity to purchase such shares at the same purchase price and on the same terms as contained in the Offer. In the event that the Sellers (i) do not notify SML in writing that they are exercising their rights under this Section 6.13 within five (5) days following the date of the Notice, or (ii) do not deliver the appropriate purchase price within fifteen (15) days following the date of Notice, Sellers shall have conclusively waived their rights under this Agreement.

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

/s/ Nadine Levenson
- - ----------

Nadine Levenson

STEVEN MADDEN, LTD.

By: /s/ Steven Madden

Name: Steven Madden
Title: Chief Executive Officer

/s/ Yves Levenson
- - ----------

Yves Levenson

DIVA ACQUISITION CORP.

By:

Name:
Title:

DIVA INTERNATIONAL, INC.

By: /s/ Yves Levenson

Name: Yves Levenson
Title: President

CERTIFICATE OF MERGER

OF

DIVA INTERNATIONAL, INC.
(A NEW YORK CORPORATION)

AND

DIVA ACQUISITION CORP.
(A DELAWARE CORPORATION)

(UNDER SECTION 907 OF THE BUSINESS CORPORATION LAW)

It is hereby certified, upon behalf of each of the constituent corporations herein named, as follows:

FIRST: The Board of Directors of each of the constituent corporations has duly adopted an agreement and plan of merger setting forth the terms and conditions of the merger of said corporations.

SECOND: The name of the foreign constituent corporation, which is to be the surviving corporation, is Diva Acquisition Corp., (the "Surviving Corporation"). The jurisdiction of its incorporation is Delaware; and the date of its incorporation therein is February 29, 1996. No Application for Authority in the State of New York of the Surviving Corporation to transact business as a foreign corporation therein was filed by the Department of State of the State of New York; and it is not to do business in the State of New York until an Application for Authority shall have been filed by the Department of State of the State of New York.

THIRD: The name of the domestic constituent corporation, which is being merged into the Surviving Corporation, is Diva International, Inc. (the "Merged Corporation"). The date upon which its certificate of incorporation was filed by the Department of State is September 1, 1989.

FOURTH: The designation and number of the issued and outstanding shares of the Merged Corporation are as follows:

Designation of each outstanding class of shares	Number of outstanding shares
Common Stock	100

The designation and number of the issued and outstanding shares of the Surviving Corporation are as follows:

Designation of each outstanding class of shares	Number of outstanding shares
Preferred Stock	None
Common Stock	100

FIFTH: The merger herein certified was authorized in respect of the Merged Corporation by the written consent of the holders of all outstanding shares of the Merged Corporation entitled to vote on the agreement and plan of merger.

SIXTH: The merger herein certified is permitted by the laws of the jurisdiction of incorporation of the Surviving Corporation and is in compliance with said laws.

SEVENTH: The Surviving Corporation agrees that it may be served with process in the State of New York in any action or special proceeding for the enforcement of any liability of obligation of the Merged Corporation, for the enforcement of any liability of obligation of the Surviving Corporation for which the Surviving Corporation is previously amenable to suit in the State of New York, and for the enforcement, as provided in the Business Corporation Law of the State of New York, of the right of shareholders of the Merged Corporation to receive payment for their shares against the Surviving Corporation.

EIGHTH: The Surviving Corporation agrees that, subject to the provisions of Section 623 of the Business Corporation Law of the State of New York, it will promptly pay to the shareholders of the Merged Corporation the amount, if any, to which they shall be entitled under the provisions of the Business Corporation Law of the State of New York relating to the rights of shareholders to receive payment for their shares.

NINTH: The Surviving Corporation hereby designates the

Secretary of State of the State of New York as its agent upon whom process against it may be served in the manner set forth in paragraph (b) of Section 306 of the Business Corporation Law of the State of New York in any action or special proceeding. The post office address within the State of New York to which the said Secretary of State shall mail a copy of any process against the Surviving Corporation served upon it is:

52-16 Barnett Avenue
Long Island City, NY 11104

IN WITNESS WHEREOF, we have subscribed this document on the date set forth below and do hereby affirm, under the penalties of perjury, that the statements contained therein have been examined by us and are true and correct.

Dated: April 2, 1996

DIVA INTERNATIONAL, INC.

, President

Attest:

- - ---
, Secretary

DIVA ACQUISITION CORP.

, Chief Executive Officer

Attest:

- - ---
, Secretary

Steven Madden Ltd. and Subsidiaries

Schedule of Computation of Net Income per Common Share
December 31, 1996

PRIMARY	
Net income	$1,058,673
Add 5% government securities interest, net of tax effect	365,080
Net income used for primary per share amounts	$1,423,753
Average shares outstanding	7,689,848
Add - common equivalent shares, determined using the "modified treasury stock method", representing shares issuable upon exercise	2,434,703
Add - incremental effect of options and warrants prior to exercise	52,965
Weighted average number of shares used in calculation of primary income per share	10,177,516
Primary net income per common share	$0.14
FULLY DILUTED	
Net income	$1,058,673
Add 5% government securities interest, net of tax effect	$388,848
Net income used for primary per share amounts	$1,447,521
Average shares outstanding	7,689,848
Add - common equivalent shares, determined using the "modified treasury stock method", representing shares issuable upon exercise	2,434,703
Add - incremental effect of options and warrants prior to exercise	52,965
Weighted average number of shares used in calculation of primary income per share	10,177,516
Fully diluted net income per common share	$0.14

Subsidiaries of Registrant

Name	State of Incorporation
Diva Acquisition Corp.	Delaware
Steven Madden Retail, Inc.	Delaware
Adesso-Madden, Inc.	Delaware

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement on Form S-8 of our report dated February 14, 1997 on the financial statements of Steven Madden, Ltd. included in the 1996 Annual Report on Form 10-KSB.

New York, New York
March 28, 1997

YEAR	
DEC-31-1996	
JAN-01-1995	
DEC-31-1996	
6,150,996	
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511,532	
188,372	
2,757,178	
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22,360,527	
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0	
0	
783	
20,100,635	
20,101,418	
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31,342,504	
13,998,449	
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0	
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1,592,213	
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0	
0	
1,058,673	
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0.142	