UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 001-33089

EXLSERVICE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	82-0572194

(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
350 PARK AVENUE, NEW YORK, NEW YORK	**10022**
(Address of principal executive offices)	**(Zip code)**

(212) 277-7100

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of April 30, 2009, there were 28,923,833 shares of the registrant s common stock outstanding (excluding 247,030 shares held in treasury), par value $0.001 per share.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EXLSERVICE HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share amounts)

	March 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 106,595	$ 112,174
Short-term investments	153	153
Accounts receivable, net of allowance for doubtful accounts of $125 at March 31, 2009 and $128 at December 31, 2008	31,888	33,714
Deferred tax assets	4,084	3,401
Income tax receivable	2,170	2,033
Prepaid expenses and other current assets	3,948	6,402
Total current assets	148,838	157,877
Fixed assets, net of accumulated depreciation of $29,040 at March 31, 2009 and $27,727 at December 31, 2008	24,023	24,518
Goodwill	17,557	17,557
Deferred tax assets	2,380	3,047
Other assets	9,745	8,970
Total assets	$ 202,543	$ 211,969
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 1,894	$ 3,371
Deferred revenue	2,911	2,961
Accrued employee cost	7,383	14,725
Accrued expenses and other current liabilities	17,069	18,011
Total current liabilities	29,257	39,068
Non-current liabilities	2,109	1,569
Total liabilities	31,366	40,637
Commitments and contingencies		
Preferred stock, $0.001 par value; 15,000,000 shares authorized, none issued		
Stockholders equity:		
Common stock, $0.001 par value; 100,000,000 shares authorized, 29,095,045 shares issued and outstanding as of March 31, 2009 and 29,054,145 shares issued and outstanding as of December 31, 2008	29	29
Additional paid-in capital	118,226	116,676

Retained earnings	72,904	70,021
Accumulated other comprehensive loss	(19,034)	(14,491)
	172,125	172,235
Less: 244,016 shares as of March 31, 2009 and 237,080 shares as of December 31, 2008, held in treasury, at cost	(948)	(903)
Total stockholders equity	171,177	171,332
Total liabilities and stockholders equity	$ 202,543	$ 211,969

See accompanying notes

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EXLSERVICE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except share and per share amounts)

	Three months ended March 31, 2009	Three months ended March 31, 2008
Revenues	$ 40,986	$ 44,431
Cost of revenues (exclusive of depreciation and amortization)	24,356	28,634
Gross profit	16,630	15,797
Operating expenses:		
General and administrative expenses	6,733	8,374
Selling and marketing expenses	3,184	2,374
Depreciation and amortization	2,430	2,515
Total operating expenses	12,347	13,263
Income from operations	4,283	2,534
Other income/(expense):		
Foreign exchange gain/(loss)	(1,309)	1,614
Interest and other income, net	311	536
Income from continuing operations before income taxes	3,285	4,684
Income tax provision/(benefit)	263	(31)
Income from continuing operations	3,022	4,715
Income/(loss) from discontinued operations, net of taxes	(139)	2,085
Net income to common stockholders	$ 2,883	$ 6,800
Earnings per share(a):		
Basic:		
Continuing operations	$ 0.10	$ 0.16
Discontinued operations		0.07
	$ 0.10	$ 0.24
Diluted:		
Continuing operations	$ 0.10	$ 0.16
Discontinued operations		0.07
	$ 0.10	$ 0.23
Weighted-average number of shares used in computing earnings per share:		
Basic	28,843,190	28,757,077
Diluted	29,079,675	29,292,838

(a) Per share amounts may not foot due to rounding.

See accompanying notes

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EXLSERVICE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

(In thousands)

	Three months ended March 31,	
	2009	**2008**
Cash flows from operating activities:		
Net income	$ 2,883	$ 6,800
Income/(loss) from discontinued operations, net of taxes	(139)	2,085
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,430	2,515
Amortization of deferred stock compensation and other non-cash compensation	1,539	988
Non employee stock options	71	74
Unrealized foreign exchange (gain)/loss	(373)	(602)
Deferred income taxes	(758)	(92)
Change in operating assets and liabilities (net of effect of acquisitions):		
Accounts receivable	2,491	(7,605)
Prepaid expenses and other current assets	(698)	3,115
Accounts payable	67	(943)
Accrued employee cost	(7,545)	(5,338)
Accrued expenses and other current liabilities	(2,249)	(465)
Income taxes payable	(36)	(1,523)
Other assets and liabilities	799	(4,690)
Net cash used for operating activities - continuing operations	(1,240)	(9,851)
Net cash provided by operating activities - discontinued operations		1,841
Net cash used for operating activities	(1,240)	(8,010)
Cash flows from investing activities:		
Purchase of fixed assets	(5,013)	(6,817)
Business acquisition		(1,696)
Proceeds from sale of discontinued operations	1,448	
Net cash used for investing activities - continuing operations	(3,565)	(8,513)
Net cash used for investing activities - discontinued operations		(36)
Net cash used for investing activities	(3,565)	(8,549)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(27)	
Proceeds from exercise of stock options		30
Acquisition of treasury stock	(45)	(13)
Net cash provided by/(used for) financing activities	(72)	17
Effect of exchange rate changes on cash and cash equivalents	(702)	7

Net decrease in cash and cash equivalents	(5,579)	(16,535)
Cash and cash equivalents, beginning of period (includes $804 at January 1, 2008 for discontinued operations)	112,174	102,210
Less cash and equivalents of discontinued operations, end of period		683
Cash and equivalents of continuing operations, end of period	$ 106,595	$ 84,992

See accompanying notes

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

(Unaudited)

(In thousands, except share and per share amounts)

1. Organization and Basis of Presentation

Organization

ExlService Holdings, Inc. (ExlService Holdings) is organized as a corporation under the laws of the state of Delaware. ExlService Holdings, together with its subsidiaries ExlService.com, Inc. (Exl Inc.), ExlService Philippines, Inc. (Exl Philippines), exlService.com (India) Private Limited (Exl India), Exl Support Services Pvt. Ltd. (ESSPL), ExlService (U.K.) Limited (Exl UK), ExlService Mauritius Limited (Exl Mauritius), ExlService SEZ BPO Solutions Private Limited (Exl SEZ BPO) and Inductis Inc. and its wholly owned subsidiaries (Inductis), including Inductis LLC (Inductis LLC), Inductis India Private Limited (Inductis India) and Inductis (Singapore) Pte Limited (Inductis Singapore) (collectively, the Company), is a leading provider of outsourcing services and transformation services. The Company s clients are located principally in the United States and the United Kingdom.

Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

The unaudited interim consolidated financial statements reflect all adjustments (of a normal and recurring nature) which management considers necessary for a fair presentation of such statements for these periods. The consolidated statements of income for the interim periods presented are not necessarily indicative of the results for the full year or for any subsequent period.

Certain prior period amounts have been reclassified in the consolidated financial statements to conform to the 2009 presentation. These reclassifications reflect the presentation of discontinued operations of Noida Customer Operations Private Limited (NCOP), previously included in the outsourcing services segment. On August 11, 2008, the Company completed the sale of all of its shares of NCOP to Aviva Global Services Singapore Pte Ltd. (see Note 16).

2. Summary of Significant Accounting Policies

Principles of Consolidation

The unaudited consolidated financial statements include the accounts of ExlService Holdings and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. 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 consolidated financial statements and the consolidated statements of income during the reporting period. Estimates are based upon management s best assessment of the current business environment. Actual results could differ from those estimates. The significant estimates and assumptions that affect the financial statements include, but are not limited to, allowance for doubtful accounts, future obligations under employee benefit plans, income tax valuation allowances and tax reserves, stock-based compensation expense, depreciation and amortization periods, recoverability of long-term assets including goodwill and intangibles, and estimates to complete fixed price contracts.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141 (revised 2007)). SFAS No. 141 (revised 2007) changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition-related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. SFAS No. 141 (revised 2007) is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The impact of SFAS No. 141 (revised 2007) on the Company s consolidated financial statements will depend on the size and nature of any acquisitions on or after January 1, 2009.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2009

(Unaudited)

(In thousands, except share and per share amounts)

In February 2008, the FASB issued Financial Staff Positions (FSP) SFAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), which delays the effective date of SFAS No. 157, Fair Value Measurement (SFAS No. 157), for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP 157-2 partially defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FSP 157-2. The implementation of FSP 157-2 for non financial assets and financial liabilities, effective January 1, 2009, did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 amends and expands the disclosures required by SFAS No. 133 so that they provide an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and how derivative instruments affect an entity s financial position, financial performance and cash flows. SFAS No. 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company s adoption of SFAS No. 161, effective January 1, 2009, did not have a material impact on its consolidated financial position, results of operations or cash flows. See Note 6 on Derivative Financial Instruments.

In April 2009, the FASB issued three Staff Positions that are intended to provide additional application guidance and enhance disclosures about fair value measurements and impairments of securities. FSP FAS 157-4 clarifies the objective and method of fair value measurement when there has been a significant decrease in market activity for the asset being measured. FSP FAS 115-2 and FAS 124-2 establishes a new model for measuring other-than-temporary impairments for debt securities, including establishing criteria for when to recognize a write-down through earnings versus other comprehensive income. FSP FAS 107-1 and APB 28-1 expands the fair value disclosures required for all financial instruments within the scope of SFAS No. 107, *Disclosures about Fair Value of Financial Instruments* , to interim periods. These FSPs are effective for periods ending after June 15, 2009. The Company is currently evaluating the impact that these standards will have on its financial statements.

3. Earnings Per Share

Basic earnings per share is computed by dividing net income to common stockholders by the weighted average number of common shares outstanding during each period and diluted earnings per share is computed by using the weighted average number of common shares plus the potentially dilutive effect of stock options, restricted stock, and restricted stock units issued and outstanding at the reporting date. Stock options, restricted stock, and restricted stock units that are anti-dilutive are excluded from the computation of weighted average shares outstanding.

For the three months ended March 31, 2009 and 2008, the weighted average number of shares used in calculating the diluted earnings per share includes stock options, restricted stock, and restricted stock units for 236,485 shares and 535,761 shares, respectively.

The calculation of earnings per share for the three months ended March 31, 2009 and 2008 excludes stock options, restricted stock, and restricted stock units for 3,103,074 shares and 961,200 shares, respectively, as their effect would have been anti-dilutive.

4. Segment Information

Effective April 1, 2008, we modified our reportable segments to reflect a change in the operating segments of our business to outsourcing services and transformation services. Prior period information below has been updated to reflect the change. The Outsourcing Services segment is comprised of the former Business Process Outsourcing segment excluding operations and process excellence services (formerly known as

process advisory services). The Transformation Services segment is comprised of decision analytics services (formerly known as research and analytics services), risk and financial management services (formerly known as risk advisory services) and operations and process excellence services.

The Company is organized around its Outsourcing Services and Transformation Services segments. The chief operating decision maker generally reviews financial information at the consolidated statement of income level but does not review any information except for revenues and cost of revenues of the individual segments. Therefore, the Company does not allocate or evaluate depreciation, amortization, interest expense or income, capital expenditures, and income taxes to its operating segments. Consequently, it is not practical to show assets, capital expenditures, depreciation or amortization by segment.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2009

(Unaudited)

(In thousands, except share and per share amounts)

Revenues and cost of revenues for each of the three months ended March 31, 2009 and 2008 for Outsourcing Services and Transformation Services segments, respectively, are as follows:

	Three months ended March 31, 2009			Three months ended March 31, 2008		
	Outsourcing Services	Transformation Services	Total	Outsourcing Services	Transformation Services	Total
Revenues	$ 33,393	$ 7,593	$ 40,986	$ 34,917	$ 9,514	$ 44,431
Cost of revenues (exclusive of depreciation and amortization)	18,261	6,095	24,356	22,605	6,029	28,634
Gross profit	$ 15,132	$ 1,498	$ 16,630	$ 12,312	$ 3,485	$ 15,797
Operating expenses			12,347			13,263
Other income/(expense)			(998)			2,150
Income tax provision/(benefit)			263			(31)
Income from continuing operations			3,022			4,715
Income/(loss) from discontinued operations, net of taxes			(139)			2,085
Net income to common stockholders			$ 2,883			$ 6,800

5. Fair Value Measurements

SFAS 157 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk, including the Company s own credit risk.

SFAS 157 establishes a three-level hierarchy of fair value measurements based on whether the inputs to those measurements are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company s market assumptions. The fair-value hierarchy requires the use of observable market data when available and consists of the following levels:

Level 1 Quoted prices for identical instruments in active markets;

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets; and

Level 3 Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The following table sets forth the Company s assets and liabilities that were accounted for at fair value as of March 31, 2009. The table excludes short-term investments, accounts receivable, accounts payable and accrued expenses for which fair values approximate their carrying amounts.

Assets and Liabilities Measured at Fair Value

	Level 1	Level 2	Level 3	Total
Assets				
Money market and mutual funds	$ 98,484	$	$	$ 98,484
Derivative financial instruments		67		67
Total	$ 98,484	$ 67	$	$ 98,551
Liabilities				
Derivative financial instruments	$	$ 8,733	$	$ 8,733

Derivative Financial Instruments. The Company s derivative financial instruments consist of foreign currency forward exchange contracts. Fair values for derivative financial instruments are based on broker quotations and are classified as Level 2. See Note 6 for further details on derivative financial instruments.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2009

(Unaudited)

(In thousands, except share and per share amounts)

6. Derivative Financial Instruments

In the normal course of business, the Company actively looks to mitigate the exposure of foreign currency market risk by entering into various hedging instruments, authorized under Company policies, with counterparties that are highly rated financial institutions. The Company s primary exchange rate exposure is to the U.K. pound sterling and the Indian rupee. The Company uses derivative instruments for the purpose of mitigating the underlying exposure from foreign currency fluctuation risks associated with forecasted transactions denominated in certain foreign currencies and to minimize earnings and cash flow volatility associated with changes in foreign currency exchange rates, and not for speculative trading purposes.

The Company hedges anticipated transactions that are subject to foreign exchange exposure with foreign currency exchange contracts that are designated effective and that qualify as cash flow hedges under SFAS No. 133. Changes in the fair value of these cash flow hedges which are deemed effective, are recorded in accumulated other comprehensive income/(loss) (AOCI) until the contract is settled and at that time are recognized in the unaudited consolidated statements of income. Changes in the fair value of cash flow hedges deemed ineffective are recognized in the unaudited consolidated statement of income and are included in foreign exchange gain/(loss).

The Company also uses derivatives consisting of foreign currency exchange contracts not designated as hedging instruments under SFAS No. 133 to hedge intercompany balances and other monetary assets or liabilities denominated in currencies other than the functional currency. Changes in the fair value of these derivatives are recognized in the unaudited consolidated statement of income and are included in foreign exchange gain/(loss).

The Company evaluates hedge effectiveness at the time a contract is entered into as well as on an ongoing basis. If during this time, a contract is deemed ineffective, the change in the fair value is recorded in other income in the consolidated statements of income. For hedge relationships discontinued because the forecasted transaction is not expected to occur by the end of the originally specified period, any related derivative amounts recorded in equity are reclassified to earnings. No significant amounts of gains or losses were reclassified from AOCI into earnings as a result of forecasted transactions that failed to occur for the three months ended March 31, 2009 and 2008.

The Company had outstanding foreign exchange contracts totaling $94,291 and GBP23,600 as of March 31, 2009 and totaling $110,182 and GBP30,320 as of December 31, 2008. The Company estimates that approximately $7,414 of net derivative losses included in AOCI could be reclassified into earnings within the next 12 months based on exchange rates prevailing as of March 31, 2009. At March 31, 2009, the maximum outstanding term of derivative instruments that hedge forecasted transactions was 31 months.

The following tables set forth the fair value of derivative instruments included in the consolidated balance sheets as on March 31, 2009 and December 31, 2008:

Derivatives designated as hedging instruments under SFAS No. 133:

	March 31, 2009	December 31, 2008
Accrued expense and other current liabilities:		
Foreign currency exchange contracts	$ 7,355	$ 5,411
Non-current liabilities:		

Foreign currency exchange contracts	$ 1,378	$ 770

Derivatives not designated as hedging instruments under SFAS No. 133:

	March 31, 2009	December 31, 2008
Prepaid and other current assets :		
Foreign currency exchange contracts	$ 67	$
Accrued expense and other current liabilities:		
Foreign currency exchange contracts	$	$ 223

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2009

(Unaudited)

(In thousands, except share and per share amounts)

The following tables set forth the effect of foreign currency exchange contracts on the consolidated statements of income for the three months ended March 31, 2009 and 2008:

Derivatives in SFAS No. 133 Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in AOCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2009	2008		2009	2008		2009	2008
Foreign exchange contracts	$ (3,926)	$ (2,107)	Foreign exchange gain/(loss)	$ (1,415)	$ 1,828	Foreign exchange gain/(loss)	$ (42)	$ (237)

Derivatives not Designated as Hedging Instrument under SFAS No. 133	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives	
		2009	2008
Foreign exchange contracts	Foreign exchange gain/(loss)	$ (469)	$

7. Comprehensive Income/(Loss):

The following table sets forth the components of comprehensive income/(loss) for the three months ended March 31, 2009 and 2008:

	Three months ended March 31,	
	2009	2008
Net income available to common stockholders	$ 2,883	$ 6,800
Other comprehensive income/(loss):		
Unrealized gain/(loss) on effective cash flow hedges	(2,511)	(3,935)
Foreign currency translation adjustment	(2,058)	(741)
Retirement benefits	26	(11)
Total other comprehensive income/(loss)	(4,543)	(4,687)
Total comprehensive income/(loss)	$ (1,660)	$ 2,113

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EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2009

(Unaudited)

(In thousands, except share and per share amounts)

8. Capital Structure

The Company has one class of common stock outstanding.

During the three months ended March 31, 2009, the Company acquired 1,315 shares of common stock from employees in connection with withholding tax payments related to the vesting of restricted stock for a total consideration of $11. The purchase price of $8.31 per share was the average of the high and low price of the Company s shares of common stock on the Nasdaq Global Select Market on the trading day prior to the vesting date of the shares of restricted stock. These shares are held as treasury stock.

During the three months ended March 31, 2009, the Company purchased 5,621 shares of its common stock for an aggregate purchase price of approximately $34, excluding commissions, representing an average purchase price per share of $6.11 as part of the share repurchase program that authorized the purchase of up to $10,000 of the Company s outstanding common stock on or prior to November 2009. Repurchased shares have been recorded as treasury shares and will be held until the Company s board of directors designates that these shares be retired or used for other purposes.

9. Employee Benefit Plans

The Company s Gratuity Plan applicable to India-based employees provides a lump sum payment to vested employees on retirement or on termination of employment in an amount based on the respective employee s salary and years of employment with the Company. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation. Current service costs for the Gratuity Plan are accrued in the year to which they relate.

Net gratuity cost includes the following components:

	Three months ended March 31,	
	2009	2008
Service cost	$ 65	$ 76
Interest cost	27	24
Actuarial loss	17	
Net gratuity cost	$ 109	$ 100

The Company contributes to various defined contribution plans on behalf of its employees in India and the Philippines. The assets held by the plans are not reported on the Company s balance sheet. The contributions made to the plans for each period are as follows:

Three months ended March 31, 2009	$ 439
Three months ended March 31, 2008	$ 497

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EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2009

(Unaudited)

(In thousands, except share and per share amounts)

10. Leases

The Company leases motor vehicles for some of its employees. Such leases are recorded as capital leases with interest rates ranging from 10.5% to 13.5%. Future minimum lease payments under these capital leases at March 31, 2009 are as follows:

Year ending March 31,	
2010	$ 140
2011	112
2012	31
Total minimum lease payments	283
Less: amount representing interest	25
Present value of minimum lease payments	258
Less: current portion	123
Long term capital lease obligation	$ 135

The Company conducts its operations using facilities leased under non-cancelable operating lease agreements that expire through February 2014. Future minimum lease payments under non-cancelable operating lease agreements expiring after more than twelve months are as follows:

Year ending March 31,	
2010	$ 2,079
2011	2,649
2012	1,196
2013	609
2014	525
Total minimum lease payments	$ 7,058

The operating leases are subject to renewal periodically and have scheduled rent increases. We account for scheduled rent on a straight line basis over the lease period. Rent expense under both cancelable and non-cancelable operating leases was $1,257 and $1,504 for the three months ended March 31, 2009 and 2008, respectively.

11. Income Taxes

The Company recorded income tax expense/(benefit) of $263 and ($31) for the three months ended March 31, 2009 and 2008, respectively.

The effective rate of taxes attributable to continuing operations has increased from a tax benefit of 0.7% for the three months ended March 31, 2008 to a tax provision of 8.0% for the three months ended March 31, 2009. Changes in our effective rate of taxes are primarily due to the changes in the geographic distribution of our income. Certain of our Indian subsidiaries benefit from a tax holiday until March 2010.

The fiscal year under the Indian Income Tax Act ends on March 31 of each year. A portion of the Company s Indian operations qualifies for exemption from taxable income because its profits are attributable to work performed in Export Processing Zones. This exemption is available for a period of ten consecutive years beginning from the year in which the entity commenced commercial operations. Accordingly, Exl India and Inductis India benefit from this deduction. This exemption terminates if the Company ceases to operate in Export Processing Zones or by March 2010 when the tax exemption period expires. ESSPL is not eligible for this deduction. The export revenue of Exl India and Inductis India qualifies for a deduction from taxable income because its profits are attributable to work performed in Export Processing Zones, and a portion of the temporary differences will not have any tax consequences as they will reverse within the tax holiday period.

Pursuant to changes in the Indian Income Tax Act from April 1, 2007, the Company has calculated its tax liability after considering the Minimum Alternate Tax (MAT). Amounts paid towards MAT can be carried forward and set off against future tax liabilities. In accordance with SFAS No. 109, *Accounting for Income Taxes* , a deferred tax asset of $1,390 and $2,109 has been recognized as of March 31, 2009 and December 31, 2008, respectively, with respect to such payments.

EXLSERVICE HOLDINGS, INC.

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(Unaudited)

(In thousands, except share and per share amounts)

Deferred tax assets and liabilities are recognized for future tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective tax bases and operating loss carry forwards. At March 31, 2009, the Company performed an analysis of the deferred tax asset valuation allowance for its Indian subsidiaries. Based on this analysis, the Company has concluded that a valuation allowance offsetting certain deferred tax assets should continue to be recorded at March 31, 2009 based on the conclusion that it is more likely than not that there will not be sufficient future taxable income to realize the deferred tax assets. The valuation allowance as of March 31, 2009 and December 31, 2008 was approximately $4,278 and $4,010, respectively.

12. Stock-Based Compensation

The following costs related to the Company s stock-based compensation plan are included in the consolidated statement of income:

	Three months ended March 31,	
	2009	**2008**
Cost of revenue	$ 301	$ 132
General and administrative expenses	763	599
Selling and marketing expenses	475	257
Total	$ 1,539	$ 988

The Finance Act of India, 2007 has imposed a Fringe Benefit Tax (FBT) on equity compensation effective April 1, 2007. The FBT is calculated on the difference between the fair market value as of the vesting date and the exercise price of the equity compensation awards granted to India-based employees. For the three months ended March 31, 2009 and 2008, the Company recorded FBT expense of approximately $0 and $13, respectively. The Company recovers FBT from its India-based employees. In accordance with GAAP, the recovery of FBT is treated as additional exercise price and is recorded as an addition to additional paid-in capital in the unaudited consolidated balance sheet.

The fair value of each stock option granted to employees, not subject to the FBT is estimated on the date of grant using the Black-Scholes option-pricing model and the fair value of each stock option granted to employees subject to the FBT is estimated at the date of grant using the Monte Carlo simulation model with the following weighted average assumptions:

	Three months ended March 31,	
	2009	**2008**
Expected life (years)	4.50	3.50
Dividend yield	0%	0%
Risk free interest rate	1.65%	2.34%
Volatility	50%	35%

The estimated expected term of options granted has been based on historical experience since October 2006, which is representative of the expected term of the options. Volatility has been calculated based on the volatility of the Company s common stock and the volatility of stocks of

comparative companies. The risk-free interest rate that the Company uses in the option valuation model is based on U.S. treasury zero-coupon bonds with a remaining term similar to the expected term of the options. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option valuation model. The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and records stock-based compensation expense only for those awards that are expected to vest. All stock-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods.

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EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(In thousands, except share and per share amounts)

Stock option activity under the Company s stock plans is shown below:

	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Life (years)
Outstanding at December 31, 2008	1,788,751	$ 14.67	$ 364	7.92
Granted	1,509,189	8.73		
Exercised				
Forfeited	(10,600)	17.75		
Outstanding at March 31, 2009	3,287,340	$ 11.93	$ 379	8.68
Vested and exercisable at March 31, 2009	648,241	$ 12.60	$ 359	6.90
Available for grant at March 31, 2009	4,176,849			

The unrecognized compensation cost for unvested options as of March 31, 2009 is $10,331 which is expected to be expensed over a weighted average period of 2.89 years. The weighted-average fair value of options granted during the three months ended March 31, 2009 and 2008 was $3.42 and $4.87, respectively. The total fair value of shares vested during the three months ended March 31, 2009 is $913.

Restricted Stock and Restricted Stock Units

Restricted stock and restricted stock unit activity under the Company s stock plans is shown below:

	Restricted Stock		Restricted Stock Units	
	Number	Weighted-Average Intrinsic Value	Number	Weighted-Average Intrinsic Value
Outstanding at December 31, 2008	578,246	$ 20.13	24,000	$ 10.26
Granted				
Vested	(40,900)	23.74		
Forfeited	(11,328)	14.92		
Outstanding at March 31, 2009	526,018	$ 19.96	24,000	$ 10.26

As of March 31, 2009, unrecognized compensation cost of $8,013 is expected to be expensed over a weighted average period of 2.6 years.

Advisory Board Options

During the three months ended March 31, 2009 and 2008, the Company recorded compensation expense of $11 and ($16), respectively related to stock options granted to advisory board. The fair value and related compensation expense will be calculated for the unvested portion of these options at the end of each reporting period until such options are fully vested.

Client Options

In connection with the execution of a five-year services agreement, the Company issued options to purchase 230,200 shares of common stock at an exercise price of $6.25 per share in July 2004 to one of its clients. The options are fully exercisable and expire ten years from the date of grant. The value of the options on the date of issuance, using the Black-Scholes valuation model, was approximately $1,792. Such amount is being amortized as a reduction in revenue over the five-year term of the services agreement. Amortization for the three months ended March 31, 2009 and 2008 was $60 and $90, respectively.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(In thousands, except share and per share amounts)

13. Related Party Transactions

On January 15, 2008, the Company purchased net assets for a consideration of $1,508 from a company controlled by entities related to the Oak Hill Partnerships, one of the Company s significant stockholders. The Company recorded expenses of $0 and $394 for the three months ended March 31, 2009 and 2008, respectively, for transition services performed by the seller prior to the acquisition. As of March 31, 2009 and December 31, 2008, the Company had no amounts payable related to these transactions.

The Company provides transformation services to Duane Reade Holdings, Inc., a New York City drugstore chain. Duane Reade Holdings, Inc. is indirectly owned by entities related to the Oak Hill Partnerships, one of the Company s significant stockholders. The Company recognized revenue of approximately $57 and $100 during the three months ended March 31, 2009 and 2008, respectively, for fees and expense reimbursements from Duane Reade Holdings, Inc. At March 31, 2009 and December 31, 2008, the Company had an account receivable of $33 and $89, respectively, related to these services.

14. Geographical Information

	Three months ended March 31,	
	2009	2008
Revenues		
United States	$ 26,898	$ 23,684
United Kingdom	13,975	20,627
Rest of world (excluding India)	58	62
India	55	58
	$ 40,986	$ 44,431

During the three months ended March 31, 2009 and 2008, the Company s total revenues from the three largest clients were $18,753 and $20,082, respectively, accounting for 45.8% and 45.2% of the total revenues, respectively, during these periods.

	March 31, 2009	December 31, 2008
Fixed assets, net		
India	$ 19,209	$ 19,235
Philippines	3,641	3,995
United States	1,122	1,182
United Kingdom	51	106
	$ 24,023	$ 24,518

15. Commitments and Contingencies

Fixed Asset Commitments

At March 31, 2009, the Company had committed to spend approximately $1,705 under agreements to purchase fixed assets. This amount is net of advances paid in respect of these purchases.

Other Commitments

The Company s delivery centers in India have been established as 100% Export-Oriented units under the Export Import Policy (the Policy) or Software Technology Parks of India units (STPI) under the STPI guidelines issued by the Government of India that has provided the Company with certain incentives on imported and indigenous capital goods. Under this policy, these units must achieve certain export ratios and realize revenues attributable to exports over a specified period. In the event that these units are unable to meet the requirements over the specified period, the Company may be required to refund these incentives along with penalties and fines. However, management believes that these units will achieve the export levels within the required timeframe as they have consistently generated the required levels of export revenues.

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EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(In thousands, except share and per share amounts)

Exl Philippines is registered as an Ecozone IT Enterprise with the Philippines Economic Zone Authority. Exl Philippines has an export obligation of $13,100 during the three year period ending March 31, 2011. The registration has also provided the Company with certain incentives on the import of capital goods. Management believes that Exl Philippines will achieve these export levels within the required timeframe.

Contingencies

U.S. and Indian transfer pricing regulations require that any international transaction involving associated enterprises be at an arm s-length price. Transactions among the Company s subsidiaries and the Company may be required to satisfy such requirements. Accordingly, the Company determines the pricing among its associated enterprises on the basis of detailed functional and economic analysis involving benchmarking against transactions among entities that are not under common control. If the applicable income tax authorities review any of the Company s tax returns and determine that the transfer price applied was not appropriate, the Company may incur increased tax liability, including accrued interest and penalties. The Company is currently involved in disputes with the Indian tax authorities over the application of some of its transfer pricing policies. The Company has received six assessment orders from the Indian tax authorities with respect to their audit of certain of the Company s subsidiaries. The Indian tax authorities are examining income tax returns for other tax years. The details of the assessment orders as of March 31, 2009 are as below:

Entity	Tax Year	Issue	Amount Demanded	Amount Deposited
Exl India	2003-04	The assessment order alleges that the transfer price the Company applied to transactions between Exl India and Exl Inc. in the 2003-04 tax year was not appropriate and disallows certain expenses claimed as tax deductible by Exl India.	$ 1,900	$ 1,900
Exl India	2004-05	The assessment order alleges that the transfer price the Company applied to transactions between Exl India and Exl Inc. for the 2004-05 tax year was not appropriate and disallows certain expenses claimed as tax deductible by Exl India.	$ 1,900	$ 1,900
Exl India	2005-06	The assessment order alleges that the transfer price the Company applied to transactions between Exl India and Exl Inc. for the 2005-06 tax year was not appropriate and disallows certain expenses claimed as tax deductible by Exl India.	$ 4,800	$ 1,600
Exl Inc.	2003-04	The assessment order alleges that Exl Inc. has a permanent establishment in India.	$ 2,900	$ 1,400
Exl Inc.	2004-05	The assessment order alleges that Exl Inc. has a permanent establishment in India.	$ 100	$
Exl Inc.	2005-06	The assessment order alleges that Exl Inc. has a permanent establishment in India.	$ 700	$ 400

Based on advice from its Indian tax advisors, the facts underlying its position and its experience with these types of assessments, the Company believes that the probability of loss is remote and accordingly has not accrued any amount with respect to these matters in its consolidated financial statements. The Company does not expect any impact from these assessments on its future income tax expense. The Company is subject to U.S. income taxes on the profits it recognizes in the United States. The Company has deposited the entire amount demanded by the Indian tax authorities with respect to the assessment orders received by Exl India for the 2003-04 and 2004-05 tax years and partial amounts with respect to the assessment orders received by Exl Inc. During the three months ended March 31, 2009, the Company reached agreement with the Indian tax authorities for a deposit of approximately $1,600 with respect to the assessment order received by Exl India for the 2005-06 tax year. There is a likelihood that the Company might receive similar orders for other years until the above disputes are resolved. Amounts paid as

deposits in respect of the assessments described above, totaling $7,200 and $5,800 as of March 31, 2009 and December 31, 2008, respectively, are included in Other assets in the Company s consolidated balance sheet.

In order to resolve the outstanding transfer pricing and permanent establishment tax disputes with the Indian tax authorities, the Company has filed requests with the U.S. competent authorities to invoke a Mutual Agreement Procedure, or MAP, under the United States India Income Tax Treaty. As a result of commencing the MAP, the U.S. competent authorities will work with the Indian competent authorities to propose a resolution to the outstanding tax disputes. The proposed resolution is not binding on the Company. As required by the MAP, the Company obtained bank guarantees of approximately $2,600 subsequent to March 31, 2009, and will need to obtain additional bank guarantees of approximately $3,500 during the third quarter of 2009, in favor of the government of India to stop the collection of the outstanding tax demands and interest for tax years 2003-04, 2004-05 and 2005-06. If additional assessment orders are received for other years, the Company may invoke the MAP for such orders.

EXLSERVICE HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

March 31, 2009

(Unaudited)

(In thousands, except share and per share amounts)

16. Discontinued Operations

On August 11, 2008, the Company completed the sale of all of its shares of NCOP to Aviva Global Services Singapore Pte Ltd. The Company received consideration totaling approximately $3,430 ($1,982 in the three months ended September 30, 2008 and $1,448 in the three months ended March 31, 2009). Income/(loss) from discontinued operations, net of income taxes, was ($139), or $0.00 per share, for the three months ended March 31, 2009, compared to $2,085, or $0.07 per share, for the three months ended March 31, 2008.

The following table shows the major categories for discontinued operations in the consolidated statements of income for the three months ended March 31, 2009 and 2008:

	Three months ended March 31,	
	2009	2008
Operations:		
Revenues	$	$ 6,517
Income from discontinued operations	$	$ 2,721
Income tax provision		636
	$	$ 2,085
Disposal:		
Loss on disposal of discontinued operations	$ (180)	$
Income tax provision/(benefit)	(41)	
	$ (139)	$
Income/(loss) from discontinued operations, net of taxes	$ (139)	$ 2,085

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

You should read the following discussion in connection with our unaudited consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008. Some of the statements in the following discussion are forward looking statements. See Forward Looking Statements. Dollar amounts within Item 2 are presented as actual dollar amounts.

Overview

We are a leading provider of outsourcing and transformation services focused on providing a competitive edge to our clients by outsourcing and transforming their business processes. Our outsourcing services provide integrated front-, middle- and back-office process outsourcing services for our U.S.-based and U.K.-based clients. Outsourcing services involve the transfer to us of select business operations of a client, such as claims processing, finance and accounting and customer service, after which we administer and manage the operations for our client on an ongoing basis. We also offer a number of transformation service offerings that include decision analytics, risk and financial management and operations and process excellence services. These transformation services help our clients improve their operating environments through cost reduction, enhanced efficiency and productivity initiatives, and improve the risk and control environments within our clients operations whether or not they are outsourced to us. A significant portion of our business relates to processes that we believe are integral to our clients operations, and the close nature of our relationships with our clients assists us in developing strong strategic long-term relationships with them. We serve primarily the needs of Global 1000 companies in the insurance, utilities, financial services and transportation sectors.

We market our services directly through our sales and marketing and strategic account management teams, which operate out of New York and London, and our business development team, which operates out of Noida, India. We currently operate nine operations centers in India and one operations center in the Philippines.

On August 11, 2008, the Company completed the sale of all of its shares of Noida Customer Operations Private Limited (NCOP) to Aviva Global Services Singapore Pte Ltd. For all the periods presented, NCOP is reported as a discontinued operation and any discussion throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations and consolidated financial statements relates to continuing operations unless otherwise indicated.

We generate revenues principally from contracts to provide outsourcing and transformation services. For the three months ended March 31, 2009, we had total revenues of $41.0 million compared to total revenues of $44.4 million for the three months ended March 31, 2008, a decrease of 7.8%, primarily due to the appreciation of the U.S. dollar against the U.K. pound sterling and lower revenues in our transformation services segment as a result of lower client discretionary spending due to broad based weakness in the economy. Revenues from transformation services, excluding the impact of the appreciation of the U.S. dollar against the U.K. pound sterling, grew by $2.7 million during the three months ended March 31, 2009 due to ongoing growth in our existing client relationships.

We anticipate that our revenues will grow as we expand our service offerings, both organically and through acquisitions. We provide our clients with a range of outsourcing services, including insurance services, banking and financial services, utilities, finance and accounting services, and collection services. Our clients transfer the management and execution of their processes or business functions to us. As part of this transfer, we hire and train employees to work at our operations centers on the relevant outsourcing services, implement a process migration to these operations centers and then provide services either to the client or directly to the client s customers. Each client contract has different terms based on the scope, deliverables and complexity of the engagement. The outsourcing services we provide to any of our clients (particularly under our general framework agreements), and the revenues and income that we derive from those services, may decline or vary as the type and quantity of services we provide under those contracts change over time, including as a result of a shift in the mix of products and services we provide.

For outsourcing services, we enter into long-term agreements with our clients with initial terms ranging from three to five years. Although these agreements provide us with a relatively predictable revenue base for a substantial portion of our business, the long selling cycle for our outsourcing services and the budget and approval processes of prospective clients make it difficult to predict the timing of new client acquisitions. Revenues under new client contracts also vary depending on when we complete the selling cycle and the implementation phase.

Our transformation services include various services such as decision analytics services which are intended to facilitate more effective data-based strategic and operating decisions by our clients, risk and financial management services and operations and process excellence services.

Our transformation services can be, and in the three months ended March 31, 2009, were, significantly affected by variations in business cycles. In addition, our transformation services usually consist of specific projects with contract terms generally not exceeding one year and may not produce ongoing or recurring business for us once the project is completed. These contracts also usually contain provisions permitting termination of the contract after a short notice period. The short-term nature and specificity of these projects could lead to further material fluctuations and uncertainties in the revenues generated from these businesses.

We serve clients mainly in the United States and the United Kingdom, with these two regions generating approximately 65.6% and 34.1%, respectively, of our total revenues for the three months ended March 31, 2009, and approximately 53.3% and 46.4%, respectively, of our total revenues for the three months ended March 31, 2008.

In both the United States and the United Kingdom, there has been recent negative publicity and proposed legislation with regard to outsourcing. If these trends continue and result in the enactment of additional legislation for which we are unable to contractually protect ourselves, our revenues could be materially affected. With the recent global economic downturn and resulting increases in unemployment in both of these countries, we expect these publicity and legislative trends to continue and possibly intensify. Our management actively monitors legislative activities in the United States and United Kingdom, both directly and through industry organizations. However, if legislation were enacted in the United Kingdom or the United States that has the effect of severely curtailing our activities in such countries, it is unlikely that we would be able to quickly replace such lost revenues.

We derive a significant portion of our revenues from a limited number of large clients. In the three months ended March 31, 2009 and 2008, our total revenues from our three largest clients were $18.8 million and $20.1 million, respectively, accounting for 45.8% and 45.2% of our total revenues, respectively, during these periods.

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We provide services to Centrica, which represented $8.7 million, or 21.2%, of our total revenues, for the three months ended March 31, 2009, and $12.0 million, or 26.9% of our total revenues, for the three months ended March 31, 2008, under an agreement that is scheduled to expire in April 2012.

We derived revenues from two and nine new clients during the three months ended March 31, 2009 and 2008, respectively. Although we are increasing and diversifying our customer base, we expect in the near future that a significant portion of our revenues will continue to be contributed by a limited number of large clients.

We recognize revenues from services provided under our client contracts on a cost-plus, time-and-materials, fixed price, contingent fee or unit-price basis. Revenue is recognized on cost-plus contracts on the basis of contractually agreed direct and indirect cost elements incurred on a client contract plus an agreed upon profit mark-up. Revenues are recognized on time-and-material contracts primarily on the basis of full time equivalent employees, including direct and indirect costs, incurred on a client contract. Revenues are recognized on fixed-price contracts using the proportional performance method. Revenues are recognized on contingent fee based contracts is recognized when the related contingency has been met to the client s satisfaction. Revenues are recognized on unit-price based contracts based on the number of specified units of work (such as the number of e-mail responses) delivered to a client.

Revenues also include amounts representing reimbursable expenses that are billed to and reimbursed by our clients and typically include telecommunication and travel-related costs. The amount of reimbursable expenses that we incur, and any resulting revenues, can vary significantly from period to period depending on each client s situation and on the type of services provided. For the three months ended March 31, 2009 and 2008, $1.5 million, or 3.7%, and $2.9 million, or 6.6%, respectively, of our revenues represent reimbursement of such expenses.

To the extent our client contracts do not contain provisions to the contrary, we bear the risk of inflation and fluctuations in currency exchange rates with respect to our contracts. We hedge a substantial portion of our Indian rupee/U.S. dollar and U.K. pound sterling/U.S. dollar foreign currency exposure.

Our management has observed in recent periods a shift in industry pricing models toward transaction-based pricing. We believe this trend will continue and we have begun to use transaction-based pricing models with some of our current clients and are seeking to move certain other clients from a billing rate model to a transaction-based pricing model. Transaction-based pricing requires that we maintain peak efficiency in our service delivery in order to maintain our operating margins.

In addition, we have also observed that prospective larger clients are entering into multi-vendor relationships with regard to their outsourcing needs. Although we have recently had certain clients consolidate their operations within a single service provider, this was done after a period in which the client maintained relationships with multiple vendors and we believe the trend toward multi-vendor relationships will continue. A multi-vendor relationship allows a client to obtain optimal pricing and other contract terms from each vendor, which can result in significantly reduced operating margins from the provision of services to such client. To the extent our large clients expand their use of multi-vendor relationships, our operating margins may be reduced with regard to such clients.

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Critical Accounting Policies and Estimates

For a description of our critical accounting policies and estimates, refer our Annual Report on Form 10-K for the year ended December 31, 2008.

Results of Operations

The following table summarizes our results of operations:

	Three months ended March 31,	
(In millions)	**2009**	**2008**
Revenues(1)	$ 41.0	$ 44.4
Cost of revenues (exclusive of depreciation and amortization)(2)	24.4	28.6
Gross profit	16.6	15.8
Operating expenses:		
General and administrative expenses(3)	6.7	8.4
Selling and marketing expenses(3)	3.2	2.4
Depreciation and amortization(4)	2.4	2.5
Total operating expenses	12.3	13.3
Income from operations	4.3	2.5
Other income/(expense):		
Foreign exchange gain/(loss)	(1.3)	1.6
Interest and other income, net	0.3	0.6
Income from continuing operations before income taxes	3.3	4.7
Income tax provision/(benefit)	0.3	
Income from continuing operations	3.0	4.7
Income/(loss) from discontinued operations, net of taxes	(0.1)	2.1
Net income to common stockholders	$ 2.9	$ 6.8

(1) In accordance with GAAP, we include the amount of telecommunications and travel-related costs that are billed to and reimbursed by our clients in our revenues. Revenues include reimbursable expenses of $1.5 million and $2.9 million for the three months ended March 31, 2009 and 2008, respectively.

(2) Cost of revenues includes $0.3 million and $0.1 million for the three months ended March 31, 2009 and 2008, respectively, as non-cash amortization of stock compensation expense relating to the issuance of equity awards to employees directly involved in providing services to our clients as described in Note 12 to our unaudited consolidated financial statements. Cost of revenues excludes depreciation and amortization related to fixed assets.

(3)

General and administrative expenses and selling and marketing expenses includes $1.2 million and $0.9 million for the three months ended March 31, 2009 and 2008 respectively, as non-cash amortization of stock compensation expense relating to the issuance of equity awards to our non-operations staff as described in Note 12 to our unaudited consolidated financial statements.

(4) Depreciation and amortization includes amortization of intangibles of $0.2 million for the three months ended March 31, 2008.

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Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008

Revenues. Revenues decreased 7.8% from $44.4 million for the three months ended March 31, 2008 to $41.0 million for the three months ended March 31, 2009. Revenues from outsourcing services decreased by $1.5 million, resulting from a $4.2 million reduction due to the appreciation of the U.S. dollar against the U.K. pound sterling partially offset by volume increases within existing processes and the addition of 15 new processes totaling $2.7 million during the three months ended March 31, 2009. Revenues from new clients for outsourcing services were $0 million and $0.1 million during the three months ended March 31, 2009 and 2008, respectively.

Revenues from transformation services decreased by $1.9 million, resulting from a $0.8 million reduction due to the appreciation of the U.S. dollar against the U.K. pound sterling and lower revenues due to reduced client spending on discretionary projects during the three months ended March 31, 2009. Revenues from new clients for transformation services were $0.1 million and $0.5 million during the three months ended March 31, 2009 and 2008, respectively.

Cost of Revenues. Cost of revenues decreased 14.9% from $28.6 million for the three months ended March 31, 2008 to $24.4 million for the three months ended March 31, 2009. Salaries and personnel expenses decreased from $20.0 million for the three months ended March 31, 2008 to $17.5 million for the three months ended March 31, 2009, primarily due to the depreciation of the Indian rupee against the U.S. dollar, resulting in a decrease in costs of $3.7 million, partially offset by an increase in headcount and salary levels. Other operating costs decreased from $8.6 million for the three months ended March 31, 2008 to $6.9 million for the three months ended March 31, 2009, primarily due to a decrease in reimbursable expenses by $1.0 million and depreciation of the Indian rupee against the U.S. dollar, resulting in a decrease in costs of $1.0 million. As a percentage of revenues, cost of revenues decreased from 64.4% for the three months ended March 31, 2008 to 59.4% for the three months ended March 31, 2009.

Gross Profit. Gross profit increased 5.3% from $15.8 million for the three months ended March 31, 2008 to $16.6 million for the three months ended March 31, 2009. The increase in gross profit was primarily the result of a decrease in cost of revenues of $4.3 million, offset by a decrease in revenues of $3.4 million. Gross profit as a percentage of revenues increased from 35.6% for the three months ended March 31, 2008 to 40.6% for the three months ended March 31, 2009.

SG&A Expenses. SG&A expenses decreased 7.7% from $10.8 million for the three months ended March 31, 2008 to $9.9 million for the three months ended March 31, 2009. The decrease in SG&A expense is primarily due to the depreciation of the Indian rupee against the U.S. dollar resulting in a decrease in costs of $0.8 million, a decrease in other operating expenses of $0.9 million, partially offset by an increase in salary and personnel expenses of $0.8 million due to the addition of sales and marketing staff. As a percentage of revenues, SG&A expenses were 24.2% for each of the three months ended March 31, 2008 and 2009.

Depreciation and Amortization. Depreciation and amortization decreased 3.4% from $2.5 million for the three months ended March 31, 2008 to $2.4 million for the three months ended March 31, 2009. As we add more operations centers, we expect that depreciation expense will increase to reflect the additional investment in equipment and operations centers necessary to meet service requirements.

Income from Operations. Income from operations increased 69.0% from $2.5 million for the three months ended March 31, 2008 to $4.3 million for the three months ended March 31, 2009. As a percentage of revenues, income from operations increased from 5.7% for the three months ended March 31, 2008 to 10.4% for the three months ended March 31, 2009. The increase in income from operations was primarily the result of an increase in gross profit of $0.8 million and a decrease in operating expenses of $0.9 million, primarily due to the depreciation of the Indian rupee against the U.S. dollar.

Other Income/(expense). Other income is comprised of foreign exchange gains and losses, interest income, interest expense and other. Other income decreased from income of $2.2 million for the three months ended March 31, 2008 to an expense of $1.0 million for the three months ended March 31, 2009 as a result of a significant increase in net foreign exchange losses attributable to movement of the Indian rupee against the U.S. dollar and the U.K. pound sterling relative to our hedged position.

Provision for Income Taxes. Provision for income taxes increased from $0 million for the three months ended March 31, 2008 to $0.3 million for the three months ended March 31, 2009. The effective rate of taxes has increased from a benefit of 0.7% for the three months ended March 31, 2008 to a provision of 8.0% for the three months ended March 31, 2009. This is primarily due to changes in the geographic distribution of our income.

Income from continuing operations. Income from continuing operations decreased from $4.7 million for the three months ended March 31, 2008 to $3.0 million for the three months ended March 31, 2009, due to a significant increase in foreign exchange losses attributable to the movement of the Indian rupee against the U.S. dollar and the U.K. pound sterling relative to our hedged position, partially offset by higher income from operations. As a percentage of revenues, income from continuing operations decreased from 10.6% for the three months ended March 31, 2008 to 7.4% for the three months ended March 31, 2009.

Liquidity and Capital Resources

At March 31, 2009, we had $106.6 million in cash and cash equivalents on hand.

Cash flows used for operating activities decreased from $9.8 million in the three months ended March 31, 2008 to $1.2 million in the three months ended March 31, 2009. Generally, factors that affect our earnings for example, pricing, volume of services, costs and productivity affect our cash flows provided by or used for operations in a similar manner. However, while management of working capital, including timing of collections and payments, affects operating results only indirectly, the impact on working capital and cash flows provided by operating activities can be significant. The decrease in cash flows used for operations is predominantly due to changes in working capital by $10.2 million, partially offset by the decrease in net income adjusted for non-cash items by $1.6 million. Changes in working capital are primarily due to a reduction in accounts receivable of $2.5 million for the three months ended March 31, 2009 as compared to an increase of $7.6 million for the three months ended March 31, 2008.

Cash flows used for investing activities decreased from $8.5 million in the three months ended March 31, 2008 to $3.6 million in the three months ended March 31, 2009. The decrease is primarily the result of lower capital expenditures of $1.8 million in the three months ended March 31, 2009, payment of $1.7 million as purchase consideration for an acquisition made during the three months ended March 31, 2008 and proceeds from the sale of our discontinued operations of $1.4 million.

Cash flows used for financing activities were insignificant during the quarters ended March 31, 2009 and 2008.

We expect to use cash from operating activities to maintain and expand our business. As we have focused on expanding our cash flow from operating activities, we continue to make capital investments, primarily related to new facilities and the purchase of capital expenditures made by us represent primarily leasehold improvements to build out facilities, telecommunications equipment and computer hardware and software in connection with managing client operations. We incurred approximately $5.0 million of capital expenditures in the three months ended March 31, 2009. We expect to incur capital expenditures of approximately $10 million to $15 million in the remainder of fiscal year 2009 primarily to meet the growth requirements of our clients, including additions to our facilities as well as to improve our internal technology. The timing and volume of such capital expenditures in the future will be affected by new contracts we may enter into or the expansion of our existing contracts. In addition, we expect to repurchase shares of our common stock from time to time until November 2009. Through March 31, 2009, we had repurchased an aggregate of approximately $0.4 million under our previously announced program to repurchase up to $10.0 million of our common stock.

In addition, in connection with the tax assessment orders issued against Exl India and Exl Inc. we may be required to deposit additional amounts with respect to the assessment orders received by us and for similar orders for subsequent years that may be received by us. As required by the MAP, the Company obtained bank guarantees of approximately $2.6 million subsequent to March 31, 2009, and will need to obtain additional

bank guarantees of approximately $3.5 million during the third quarter of 2009, in favor of the government of India to stop the collection of the outstanding tax demands and interest for tax years 2003-04, 2004-05 and 2005-06.

We anticipate that we will continue to rely upon cash from operating activities to finance our capital expenditures and working capital needs. Based on economic conditions as of March 31, 2009, we believe that cash flow from operations will be sufficient to meet our ongoing capital expenditure, working capital and other cash needs in the near term. If we have significant growth through acquisitions or require additional operating facilities to service customer contracts, we may need to obtain additional financing.

Off-Balance Sheet Arrangements

As of March 31, 2009 and December 31, 2008, we had no off-balance sheet arrangements or obligations.

Contractual Obligations

The following table sets forth our contractual obligations as of March 31, 2009:

	Payments Due by Period (in millions)				
	Less than 1 year	1-3 years	4-5 years	After 5 Years	Total
Capital leases	$0.1	$ 0.1	$	$	$ 0.2
Operating leases	2.1	3.9	1.1		7.1
Purchase obligations	1.7				1.7
Other obligations(a)	0.5	0.8	0.8	0.8	2.9
Total contractual cash obligations	$4.4	$ 4.8	$ 1.9	$0.8	$ 11.9

(a) Represents estimated payments under the Company s Gratuity Plan.

Our delivery centers in India have been established as 100% Export-Oriented units under the Export Import Policy (the Policy) or Software Technology Parks of India units (STPI) under the STPI guidelines issued by the Government of India that has provided us with certain incentives on imported and indigenous capital goods. Under this policy, these units must achieve certain export ratios and realize revenues attributable to exports over a specified period. In the event that these units are unable to meet the requirements over the specified period, we may be required to refund these incentives along with penalties and fines. However, management believes that these units will achieve the export levels within the required timeframe as they have consistently generated the required levels of export revenues.

Exl Philippines is registered as an Ecozone IT Enterprise with the Philippines Economic Zone Authority. Exl Philippines has an export obligation of $13.1 million during the three year period ending March 31, 2011. The registration has also provided us with certain incentives on the import of capital goods. Management believes that Exl Philippines will achieve these export levels within the required timeframe.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141 (revised 2007)). SFAS No. 141 (revised 2007) changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition-related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. SFAS No. 141 (revised 2007) is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The impact of SFAS No. 141 (revised 2007) on our consolidated financial statements will depend on the size and nature of any acquisitions on or after January 1, 2009.

In February 2008, the FASB issued Financial Staff Positions (FSP) SFAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), which delays the effective date of SFAS No. 157, Fair Value Measurement (SFAS No. 157), for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP 157-2 partially defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FSP 157-2. The implementation of FSP 157-2 for non financial assets and financial liabilities, effective January 1, 2009, did not have a material impact on our consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 amends and expands the disclosures required by SFAS No. 133 so that they provide an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and how derivative instruments affect an entity s financial position, financial performance and cash flows. SFAS No. 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of SFAS No. 161, effective January 1, 2009, did not have a material impact on our consolidated financial position, results of operations or cash flows.

In April 2009, the FASB issued three Staff Positions that are intended to provide additional application guidance and enhance disclosures about fair value measurements and impairments of securities. FSP FAS 157-4 clarifies the objective and method of fair value measurement when there has been a significant decrease in market activity for the asset being measured. FSP FAS 115-2 and FAS 124-2 establishes a new model for measuring other-than-temporary impairments for debt securities, including establishing criteria for when to recognize a write-down through earnings versus other comprehensive income. FSP FAS 107-1 and APB 28-1 expands the fair value disclosures required for all financial instruments within the scope of SFAS No. 107, *Disclosures about Fair Value of Financial Instruments* , to interim periods. These FSPs are effective for periods ending after June 15, 2009. We are currently evaluating the impact that these standards will have on our financial statements.

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Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward looking statements. You should not place undue reliance on those statements because they are subject to numerous uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Forward looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as may, will, should, believe, expect, anticipate, intend, plan, estimate or similar expressions. These statements are based on assumptions that we have made in light of our experienc in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you read and consider this Quarterly Report on Form 10-Q, you should understand that these statements are not guarantees of performance or results. They involve known and unknown risks, uncertainties and assumptions. Although we believe that these forward looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward looking statements. These factors include but are not limited to:

- our dependence on a limited number of clients in a limited number of industries;
- worldwide political, economic or business conditions;
- negative public reaction in the United States or elsewhere to offshore outsourcing
- fluctuations in our earnings;
- our ability to attract and retain clients;
- restrictions on immigration;
- our ability to hire and retain enough sufficiently trained employees to support our operations;
- our ability to grow our business or effectively manage growth and international operations;
- increasing competition in our industry;
- telecommunications or technology disruptions;
- fluctuations in exchange rates between the currencies in which we receive our revenues and the currencies in which we incur our costs;
- regulatory, legislative and judicial developments, including the withdrawal of governmental fiscal incentives;

- technological innovation;
- political or economic instability in the geographies in which we operate;
- our ability to successfully consummate or integrate strategic acquisitions; and
- adverse outcome of our disputes with the Indian tax authorities.

These and other factors are more fully discussed elsewhere in this Quarterly Report on Form 10-Q. These and other risks could cause actual results to differ materially from those implied by forward looking statements in this Quarterly Report of Form 10-Q.

You should keep in mind that any forward looking statement made by us in this Quarterly Report on Form 10-Q, or elsewhere, speaks only as of the date on which we make it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no obligation to update any forward looking statements in this Quarterly Report on Form 10-Q after the date of this Quarterly Report on Form 10-Q, except as required by federal securities laws.

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ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

During the three months ended March 31, 2009, there were no material changes in our market risk exposure. For a discussion of our market risk associated with exchange rate risk and interest rate risk, see Item 7A Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2008.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports the Company files under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer (CEO) and Chief Financial Officer (CFO), to allow timely decisions regarding required financial disclosure. In connection with the preparation of this Quarterly Report on Form 10-Q, the Company s management carried out an evaluation, under the supervision and with the participation of the CEO and CFO, of the effectiveness and operation of our disclosure controls and procedures as of March 31, 2009. Based upon that evaluation, the CEO and CFO have concluded that, as of March 31, 2009, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Exchange Act were (i) recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and (ii) accumulated and communicated to our management, to allow timely decisions regarding disclosure.

Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2009, there was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We have disclosed under the heading Legal Proceedings in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 certain proceedings which may materially affect our business, financial condition or results of operations. You should carefully consider the disclosures set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and the other information set forth elsewhere in this Quarterly Report on Form 10-Q. There are no material changes to the legal proceedings as described in our Annual Report.

ITEM 1A. RISK FACTORS

We have disclosed under the heading Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008 the risk factors which materially affect our business, financial condition or results of operations. You should carefully consider the Risk Factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2008 and the other information set forth elsewhere in this Quarterly Report on Form 10-Q. You should be aware that these risk factors and other information may not describe every risk facing our Company. Additional risks and uncertainties not currently known to us also may materially adversely affect our business, financial condition and/or results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

None.

Use of Proceeds

None.

Purchases of Equity Securities by the Issuer

During the three months ended March 31, 2009, the Company acquired 1,315 shares of common stock from employees in connection with withholding tax payments related to the vesting of restricted stock for a total consideration of $10,921. The purchase price of $8.31 per share was the average of the high and low price of the Company s shares of common stock on the Nasdaq Global Select Market on the trading day prior to the vesting date of the shares of restricted stock. These shares are held as treasury stock.

During the three months ended March 31, 2009, the Company purchased 5,621 shares of its common stock for an aggregate purchase price of approximately $34,332 excluding commissions, representing an average purchase price per share of $6.11 as part of the share repurchase program that authorized the purchase of up to $10,000,000 of the Company s outstanding common stock on or prior to November 2009. Repurchased shares have been recorded as treasury shares and will be held until the Company s board of directors designates that these shares be retired or used for other purposes.

Period	Total Number of Shares Purchased	Average Price Paid per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 - January 31, 2009		$		$ 9,660,492
February 1 - February 28, 2009		$		$ 9,660,492
March 1 - March 31, 2009	5,621	$ 6.11	5,621	$ 9,626,160

(1) Excludes commissions paid by the Company in connection with the repurchases.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

On May 5, 2009, the Company and Exl India each entered into an employment letter agreement with Vishal Chhibbar. Mr. Chhibbar will serve as Vice President and Chief Financial Officer of the Company and Exl India effective June 1, 2009 (the Effective Date).

Mr. Chhibbar, age 41, has 20 years of professional experience and has been with GE Capital since 1998 where he has served in various senior leadership roles in finance. Since 2005, Mr. Chhibbar has served as the Regional Head, Group Financial Planning for Strategy and Treasury for GE Capital, Australia and New Zealand. In 2004 and 2005, Mr. Chhibbar was Chief Financial Officer for GE Capital, South Korea. From 1998 to 2004, Mr. Chhibbar was the Chief Financial Officer for GE Capital, Indonesia and Malaysia. Mr. Chhibbar is a Charto;s annual base salary increased to and will remain $554,719 for the remaining term of the agreement. Mr. Dharia received a monthly automobile allowance of $1,200 prior to the most recent amendment of the agreement and beginning January 1, 2012, his monthly car allowance increased to $1,400. The agreement provides that the Company will pay life insurance premiums on Mr. Dharia’s behalf of approximately $80,000 per year. Mr. Dharia’s employment agreement, as amended, provides for a grant of 10,000 shares of the Company’s Common Stock, subject to certain restrictions. These restricted shares of Common Stock were issued to Mr. Dharia on February 8, 2012 under the 2006 Plan and will vest in three substantially equal annual installments commencing on February 8, 2013. In addition, the amended agreement provides that Mr. Dharia will receive an annual bonus in such amount, if any, and at such time or times, as the Board of Directors may determine in its absolute discretion. Subject to availability of shares under the 2006 Plan, or any other plan designated by the Board of Directors and approved by the Company’s stockholders, Mr. Dharia is entitled to awards under such plan as may be determined by the Board of Directors, or a committee thereof, from time to time in its absolute discretion.

The agreement provides, in the event of Mr. Dharia's death, for the payment to Mr. Dharia's estate of his base salary for the 12-month period immediately subsequent to the date of Mr. Dharia's death. The agreement also provides that if Mr. Dharia's employment agreement is terminated due to his "total disability" (as defined in the agreement), Mr. Dharia will receive payment of his base salary for the 12-month period immediately subsequent to the date he is determined to be totally disabled. In the event that Mr. Dharia's employment agreement is terminated "for cause" (as defined in the agreement), the Company is obligated to pay Mr. Dharia the amount of compensation that is accrued and unpaid through the date of termination. In the event that Mr. Dharia's employment agreement is terminated for any reason (other than "for cause" or due to his death or total disability), the Company is obligated to pay Mr. Dharia, in two installments, (a) an amount equal to the product of (x) his base salary on the effective date of such termination plus the bonus paid or payable, if any, for the fiscal year ended on the December 31st immediately preceding the termination date, multiplied by (y) the number of years (and fraction of years) remaining in the term; and (b) the amount payable to him, or on his account, for what would have been the balance of the term of his employment agreement with respect to certain benefits and plans as set forth in his employment agreement. If the Company decides not to renew the agreement (other than "for cause" or due to his total disability), then Mr. Dharia will be entitled to receive severance compensation, in cash, in an amount equal to his then-current base salary for the 90-day period commencing on the expiration of the term.

In addition, in the event that there is a "change of control" transaction and Mr. Dharia's employment has been terminated by the Company other than "for cause" or if Mr. Dharia resigns "for good reason" (as such terms are defined in the agreement), Mr. Dharia will receive an amount equal to three times the total compensation he was entitled to receive under the agreement for the preceding 12-month period ending on the last previous December 31, except that in lieu of the actual base salary component received during such period, there shall be substituted the annual base salary to which Mr. Dharia was entitled to as of the date of termination or resignation (the "Change of Control Payment"). However, if the Change of Control Payment (or a portion thereof) is determined to constitute an "excess parachute payment" under Sections 280G and 4999 of the Code, Mr. Dharia will be paid either (i) the Change of Control Payment (which shall be subject to all applicable taxes to be paid by the executive including the excise tax payable pursuant to Section 4999 and which shall be limited as to deductibility to the Company) or (ii) a reduced amount, calculated in accordance with Section 280G, that may be paid to the executive without the imposition of an excise tax under Section 4999 and which shall be fully deductible to the Company, whichever payment yields the greater after-tax benefit to the executive.

Awadhesh Sinha. In June 2005, the Company entered into an employment agreement with Awadhesh Sinha, which was amended in November 2007 and in October 2008, pursuant to which Mr. Sinha agreed to continue to serve as the Company's Chief Operating Officer. Pursuant to his amended employment, Mr. Sinha received a base salary of $539,963 in fiscal year 2010. In respect of the 2010 fiscal year, Mr. Sinha was eligible to receive a cash bonus under the Company's 2006 Plan equal to 3% of the increase in the Company's EBIT for such fiscal year over the EBIT of the immediately prior fiscal year up to a maximum bonus of $1,000,000 in any fiscal year. Mr. Sinha received a cash bonus of $1,000,000 for 2010 EBIT performance. In addition, Mr. Sinha's employment agreement, as amended, provided for certain deferred compensation with respect to 2008, 2009 and 2010. For the period commencing July 1, 2008 and ending December 31, 2008, the agreement, as amended, provided for a mandatory deferral of additional cash compensation in an amount equal to 25% of Mr. Sinha's annual base salary, and the Company agreed to pay to Mr. Sinha such additional cash compensation provided that Mr. Sinha remained in the employ of the Company on December 31, 2010. For the period commencing January 1, 2009 and ending December 31, 2009, the agreement, as amended, provided for a mandatory deferral of additional cash compensation in an amount equal to 12.5% of Mr. Sinha's annual base salary, and the Company agreed to pay to Mr. Sinha such additional cash compensation provided that Mr. Sinha remained in the employ of the Company on December 31, 2010. For the period commencing January 1, 2010 and ending December 31, 2010, the agreement, as amended, provided for a mandatory deferral of additional cash compensation in an amount equal to 7.5% of Mr. Sinha's annual base salary, and the Company agreed to pay to Mr. Sinha such additional cash compensation provided that Mr. Sinha remained in the employ of the Company on December 31, 2010. Mr. Sinha received a total of $175,500, in cash, with respect to the deferred additional cash

compensation for the 2008, 2009 and 2010 fiscal years subsequent to the end of the 2010 fiscal year.

On December 1, 2010, the Company entered into a new employment agreement with Mr. Sinha to replace the prior employment agreement, which was to expire by its terms on December 31, 2010. Pursuant to the new employment agreement, Mr. Sinha continues to serve as Chief Operating Officer of the Company for a term commencing on January 1, 2011 and expiring on December 31, 2013, unless sooner terminated in accordance with the terms of the agreement. Commencing January 1, 2011, Mr. Sinha's annual base salary increased to and will remain $575,000 for the remaining term of the agreement. Pursuant to his employment agreement, Mr. Sinha receives a monthly automobile allowance of $1,750. The employment agreement also provides that the Company will pay term life insurance premiums on his behalf of approximately $3,500 per year. In addition, Mr. Sinha's new employment agreement provides for a grant of 52,500 shares of the Company's Common Stock, subject to certain restrictions (the number of shares indicated having been adjusted for a May 31, 2011 three-for-two stock split effected as a stock dividend). These restricted shares of Common Stock were issued to Mr. Sinha on December 1, 2010 under the 2006 Plan. The restricted Common Stock will vest in three annual installments of 17,500 shares commencing on the first anniversary of the grant date. Mr. Sinha's new employment agreement provides that additional compensation and bonuses, if any, will be paid to him at the absolute discretion of the Board of Directors. Bonuses and other incentive-based compensation paid to Mr. Sinha are subject to recovery by the Company in the event of a determination that such compensation was based upon materially inaccurate financial statements.

In the event of his death, Mr. Sinha's employment agreement provides for the payment to Mr. Sinha's estate of his base salary for the 12-month period immediately subsequent to the date of Mr. Sinha's death. In addition, in the event of Mr. Sinha's "total disability" (as such term is defined in the agreement), the Company is obligated to continue to pay Mr. Sinha's base salary for the 12-month period immediately subsequent to the date of determination of such total disability. In the event Mr. Sinha's employment agreement is terminated "for cause" (as such terms are defined in the agreement), or due to Mr. Sinha's resignation without "good reason" (as such term is defined in the agreement), the Company is obligated to pay Mr. Sinha the amount of compensation that is accrued and unpaid through the date of termination. In the event Mr. Sinha's employment agreement is terminated by the Company without cause or by the resignation of Mr. Sinha for good reason, Mr. Sinha would be entitled to receive payment of his annual base salary, payable at regular payroll intervals, from the date of termination of employment through the longer of (i) the remainder of the term or (ii) six months.

In addition, if Mr. Sinha's employment is terminated by the Company without cause or if Mr. Sinha resigns for good reason during the period commencing 120 days prior to a "change of control" (as defined in the agreement) and ending 180 days after a change of control, Mr. Sinha would be entitled to receive an amount equal to three times the total W-2 compensation actually received by him during the preceding twelve-month period ending on the last previous December 31st, except that, in lieu of the actual base salary compensation received, the annual base salary to which Mr. Sinha was entitled as of the date of such termination or resignation of employment shall be substituted (the "Change of Control Payment"). However, if the Change of Control Payment (or a portion thereof) is determined to constitute an "excess parachute payment" under Sections 280G and 4999 of the Code, Mr. Sinha will be paid either (i) the Change of Control Payment (which shall be subject to all applicable taxes to be paid by the executive including the excise tax payable pursuant to Section 4999 and which shall be limited as to deductibility to the Company) or (ii) a reduced amount, calculated in accordance with Section 280G, that may be paid to the executive without the imposition of an excise tax under Section 4999 and which shall be fully deductible to the Company, whichever payment yields the greater after-tax benefit to the executive.

Robert Schmertz. In April 2002, the Company entered into an employment agreement with Robert Schmertz pursuant to which Mr. Schmertz agreed to serve as President of Steve Madden Wholesale Women's Division and Brand Manager for the Company. The term of the agreement commenced on April 1, 2002 and was extended in March 2005 and again in March 2007. Pursuant to the amended agreement, Mr. Schmertz received an annual salary of $600,000. In October 2009, the Company entered into a new employment agreement with Mr. Schmertz to replace the prior employment agreement, which was to expire by its terms on December 31, 2009. Pursuant to the October 2009 agreement, Mr. Schmertz would continue to serve as Brand Director of the Company for a term that commenced on

October 7, 2009 and expired on December 31, 2012. Mr. Schmertz's annual base salary during the period from October 7, 2009 through December 31, 2009 remained $600,000. His annual base salary was increased to $660,000 commencing on January 1, 2010 for the duration of the term. The October 2009 employment agreement provided that Mr. Schmertz would receive a monthly automobile allowance of $1,250 and additional compensation and bonuses, if any, at the absolute discretion of the Board of Directors.

On January 2, 2013, the Company entered into a new employment agreement with Mr. Schmertz to replace the prior agreement that expired on December 31, 2012. Pursuant to the new agreement, Mr. Schmertz will continue to serve as the Company's Brand Director for a term commencing on January 1, 2013 and expiring on December 31, 2014 unless sooner terminated in accordance with the agreement's terms. Mr. Schmertz's current agreement provides for an annual base salary of $725,000 and a monthly automobile allowance of $1,500 during the term of the agreement. He will receive additional compensation and bonuses, if any, at the absolute discretion of the Board of Directors. Pursuant to the current agreement, on January 4, 2013, Mr. Schmertz was granted 16,667 shares of the Company's Common Stock, subject to certain restrictions. These restricted shares of Common Stock, which were issued under the 2006 Plan, will vest in five substantially equal annual installments commencing on the first anniversary of the grant date, January 4, 2014.

In the event of Mr. Schmertz's death, the employment agreement provides for the payment to his estate of his base salary for the 12-month period immediately subsequent to the date of Mr. Schmertz's death. The agreement also provides that if Mr. Schmertz's employment agreement is terminated due to his "total disability" (as defined in the agreement), Mr. Schmertz will receive payment of his base salary for the 12-month period immediately subsequent to the date he is determined to be totally disabled. The Company may terminate the employment agreement for "cause" (as defined in the employment agreement), in which event Mr. Schmertz would be entitled to receive only his accrued and unpaid base salary through the date of termination. In the event that Mr. Schmertz's employment is terminated by the Company without cause, he would be entitled to receive payment of his annual base salary, payable at regular payroll intervals, from the date of termination through the remainder of the term. In addition, if Mr. Schmertz's employment is terminated by the Company without cause during the period commencing 30 days prior to a "change of control" (as defined in the employment agreement) transaction and ending 180 days after a change of control transaction, he would be entitled to receive an amount equal to the lesser of (i) the average amount of total compensation actually received by him during the preceding three calendar years multiplied by 3 and (ii) the maximum amount that is tax deductible to the Company under Section 280G of the Code, such amount to be in lieu of and not in addition to any other payments to which Mr. Schmertz would be entitled in the event of the termination of his employment.

Amelia Newton Varela. In October 2004, the Company entered into an employment agreement with Amelia Newton Varela, pursuant to which Ms. Varela agreed to serve as Executive Vice President of Wholesale Sales. In April 2008, the Company entered into a new employment agreement with Ms. Varela, pursuant to which Ms. Varela agreed to serve as Executive Vice President of Wholesale and Retail for a term commencing on April 29, 2008 and ending on December 31, 2010. Pursuant to the 2008 employment agreement, Ms. Varela was granted an option to purchase 56,250 shares of Common Stock of the Company at an exercise price of $21.76 per share on April 1, 2010 (the number of shares and exercise prices indicated having been adjusted for three-for-two stock splits effected as a stock dividend, which occurred on April 30, 2010 and May 31, 2011). The option shall vest 20% each year for five years, commencing on the first anniversary date of the grant of the option, has a term of seven years and has an exercise price equal to the market price on the grant date. Under Ms. Varela's 2008 employment agreement, her annual base salary was $400,000 for the 2010 fiscal year. Under the terms of the agreement, the Company agreed to pay Ms. Varela an annual bonus for fiscal year 2010 in an amount equal to 2% of the increase, if any, in Wholesale Footwear Division EBIT for that year over Wholesale Footwear Division EBIT for the immediately prior year, plus 1.5% of the increase, if any, in Retail Division EBIT for that year over Retail Division EBIT for the immediately prior year. Ms. Varela received a cash bonus of $540,965 for 2010 EBIT performance. In addition, under the 2008 employment agreement, Ms. Varela would be entitled to a cash bonus of $200,000 if still employed by the Company on December 31, 2010, which bonus was paid to Ms. Varela subsequent to the end of the 2010 fiscal year.

On January 31, 2011, the Company entered into a new employment agreement with Ms. Varela to replace the prior employment agreement which expired by its terms on December 31, 2010. Pursuant to her new employment agreement, Ms. Varela will serve as the Executive Vice President - Wholesale for a term commencing January 1, 2011

and expiring on December 31, 2013, unless sooner terminated in accordance with the terms of the agreement. During the term of her new employment agreement, Ms. Varela will receive an annual base salary of $450,000 and a monthly automobile allowance of $1,250. In addition, pursuant to the new employment agreement, on February 1, 2011, Ms. Varela was granted an option to purchase 150,000 shares of the Company's Common Stock under the 2006 Plan, at an exercise price of $25.45 per share (the number of shares and exercise price indicated having been adjusted for a May 31, 2011 three-for-two stock split effected as a stock dividend), which option becomes exercisable in four equal annual installments of 37,500 on each anniversary of the date of grant, commencing on February 1, 2012. In addition, Ms. Varela is entitled to an annual performance-based cash bonus for each of the fiscal years ended December 31, 2011, 2012 and 2013 in an amount equal to 2% of the increase, if any, in the Wholesale Division EBIT for each such year over the Wholesale Division EBIT for the immediately preceding year. Wholesale Division EBIT attributable to any business acquired by the Company after January 31, 2011 will not be included for the purpose of determining Ms. Varela's bonus until the acquired business has been owned by the Company for two full calendar years. Ms. Varela received a cash bonus of $216,999 and $63,351 for 2012 Wholesale Division EBIT performance and 2011 Wholesale Division EBIT performance, respectively.

In the event that Ms. Varela's employment agreement is terminated due to Ms. Varela's "disability" (as defined in the agreement) or death, the Company is obligated to pay Ms. Varela (or her estate) the amount of accrued and unpaid salary through the date of termination plus any performance-based cash bonus that has accrued for the year prior to termination and is unpaid at the time Ms. Varela's employment is terminated due to her disability or death. The Company may terminate the agreement for "cause" (as defined in the agreement) and, in such event, Ms. Varela will be entitled only to accrued and unpaid salary through the date of termination of employment. In the event Ms. Varela's employment is terminated by the Company without cause, she would be entitled to receive payment of her annual base salary, payable at regular payroll intervals, from the date of termination of employment through the remainder of the term plus any performance-based cash bonus that has accrued but not yet been paid. In the event that Ms. Varela's employment is terminated by the Company without cause during the period commencing 30 days prior to a "change of control" (as defined in the agreement) transaction and ending 180 days following a change of control transaction, she is entitled to receive an amount equal to the lesser of (i) the average amount of total compensation actually received by her during the preceding three calendar years multiplied by 3 and (ii) the maximum amount that is tax deductible to the Company under Section 280G of the Code.

GRANTS OF PLAN-BASED AWARDS IN THE 2012 FISCAL YEAR

The following table sets forth information concerning awards under the Company's equity and non-equity incentive plans granted to each of the Named Executive Officers in the 2012 Fiscal Year, including performance-based awards and those using time-based vesting. Following the table is a discussion of material factors related to the information disclosed in the table.

Name	Grant Date	Estimated future payouts under non-equity incentive plan awards Threshold ($)	Target ($)		Maximum ($)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)
Edward R. Rosenfeld	03/14/12	—	1,751,742	(1)	—	20,000	—	—	883,400
Arvind Dharia	02/08/12	—	817,480	(1)	—	10,000	—	—	409,300
	04/02/12	—	—		—	5,000	—	—	213,750
Awadhesh Sinha	03/14/12	—	817,480	(1)	—	7,500	—	—	331,275
Robert Schmertz	n/a	—	817,480	(1)	—	—	—	—	—
Amelia Newton Varela	03/14/12	—	63,351	(2)	—	11,473	—	—	506,762
	n/a	—	817,480	(1)	—	—	—	—	—

(1) In the 2012 Fiscal Year, the Compensation Committee established a bonus pool for Named Executive Officers and other key executives of the Company based on 6% of net income of the Company achieved in the 2012 Fiscal Year and also fixed each executive's maximum share of the 2012 bonus pool, which was 30% for Mr. Rosenfeld and 14%

for each of the other Named Executive Officers. Since the bonus pool was established as a percentage of the Company's 2012 Fiscal Year net income, it would not be possible to determine the amount of these potential cash bonuses until the completion of the Company's 2012 Fiscal Year. Accordingly, the amount indicated is a representative payout amount and equals the maximum bonus the Named Executive Officer would have been eligible to receive from a cash bonus pool of $5,839,140, which equals 6% of the $97,319,000 in net income of the Company achieved in the fiscal year ended December 31, 2011. See the discussion of the 2012 cash bonus pool and the individual target awards of each of the Named Executive Officers appearing above in the "Annual Performance-Based Cash Bonus - Based on Specific Performance Metrics" section of "Compensation Structure." As disclosed therein, the Company paid these performance bonuses in cash and restricted shares of Common Stock on March 15, 2013. Accordingly, Messrs. Rosenfeld, Dharia, Sinha and Schmertz received performance-based cash bonuses of $250,000, $250,000, $250,000 and $100,000, respectively, and Mr. Rosenfeld, Mr. Schmertz and Ms. Varela received grants of 20,000, 11,043 and 10,000 restricted shares of Common Stock, respectively. Ms. Varela did not receive a cash bonus from the 2012 cash bonus pool. In accordance with applicable SEC rules, the Summary Compensation Table included in this Proxy Statement reflects these cash bonuses, while the restricted stock awards will appear in the Summary Compensation Table to be included in our proxy statement for our 2014 Annual Meeting of Stockholders provided the restricted stock award recipient is a named executive officer in that proxy statement.

(2) Under an employment agreement dated January 31, 2011 between the Company and Ms. Varela, Ms. Varela is entitled to receive a cash bonus under the Company's 2006 Plan on or about March 15, 2013 in an amount equal to 2% of the increase, if any, in the Wholesale division EBIT for the 2012 fiscal year over the Wholesale division EBIT for the 2011 fiscal year. Since it would not be possible to determine the amount of Ms. Varela's cash bonus, if any, until the completion of the Company's 2012 fiscal year, the amount indicated as the target bonus payout is a representative amount and based upon the actual increase in the EBIT performance of the Company's Wholesale division for the 2011 fiscal year over the EBIT performance of the Wholesale division for the 2010 fiscal year. See the discussion of this grant to Ms. Varela appearing above in the "Annual Performance-Based Cash Bonus - Based on Specific Performance Metrics" section of "Compensation Structure" and above under "Employment Arrangements." As disclosed in the Summary Compensation Table above, Ms. Varela received a cash bonus of $216,999 for 2012 EBIT performance of the Company's Wholesale division.

Plan-Based Awards

1999 Stock Plan

As of March 15, 1999, the Board of Directors of the Company adopted the 1999 Stock Plan (the "1999 Plan"), and on June 4, 1999 the Company's stockholders approved the adoption of the 1999 Plan. Since its adoption, the 1999 Plan has been amended, with stockholder approval, to (i) increase the number of shares subject to the 1999 Plan, (ii) provide that the exercise price of an option granted under the 1999 Plan shall be no less than the fair market value of the Common Stock on the date of grant (except to the extent otherwise provided in agreements with the Company dated prior to the effective date of the amendment), and (iii) prohibit the Board from amending the terms of any option granted pursuant to the 1999 Plan to reduce the option price. The 1999 Plan was adopted to provide a means whereby directors and selected employees, officers, agents, consultants, and independent contractors of the Company could be granted incentive stock options and/or nonqualified stock options to purchase shares of Common Stock, in order to attract and retain the services or advice of such directors, employees, officers, agents, consultants, and independent contractors and to provide additional incentive for such persons to exert maximum efforts for the success of the Company by encouraging stock ownership in the Company. As of the Record Date, options to purchase 22,502 shares of Common Stock were outstanding under the 1999 Plan. No additional options will be granted under the 1999 Plan.

2006 Stock Incentive Plan

As of March 10, 2006, the Board of Directors of the Company adopted the Company's 2006 Stock Incentive Plan and, on May 26, 2006, the Company's stockholders approved the adoption of the Company's 2006 Stock Incentive Plan. The 2006 Stock Incentive Plan was amended in 2007 and 2008. On April 6, 2009, the Board of Directors adopted an Amended and Restated 2006 Stock Incentive Plan and, on May 22, 2009, the Company's stockholders approved the Amended and Restated 2006 Stock Incentive Plan. On April 5, 2012, the Board of Directors approved an amendment of the Amended and Restated 2006 Stock Incentive Plan primarily to increase the number of shares of Common Stock available for issuance thereunder by 6,500,000 shares, subject to stockholder approval of such amendment. The amendment to the Amended and Restated 2006 Stock Incentive Plan was approved by the Company's stockholders at the 2012 Annual Meeting of Stockholders on May 25, 2012.

The Company's Amended and Restated 2006 Stock Incentive Plan is referred to as the "2006 Plan" throughout this Proxy Statement. The purpose of the 2006 Plan is to enhance the profitability and value of the Company for the benefit of its stockholders by enabling the Company to offer eligible employees, consultants and non-employee directors cash and stock-based incentives in the Company to attract, retain and reward such individuals and strengthen the mutuality of interests between such individuals and the Company's stockholders.

The maximum number of shares of Common Stock available for issuance under the 2006 Plan is 15,644,000 shares. As of the Record Date, there were outstanding 3,031,795 unvested shares of restricted stock and options to purchase 2,453,727 shares of Common Stock; options had been exercised, or restricted stock had vested, with respect to 6,284,860 shares of Common Stock; and 3,873,618 shares of Common Stock remained available for grant under the 2006 Plan.

OUTSTANDING EQUITY AWARDS AT END OF THE 2012 FISCAL YEAR

The following table sets forth information concerning unexercised stock options, restricted stock that has not vested and stock awards outstanding for each of the Named Executive Officers as of the end of the 2012 Fiscal Year. All awards that occurred prior to the three-for-two split of the Company's Common Stock effectuated as a stock dividend on or about April 30, 2010 and the three-for-two split of the Company's Common Stock effectuated as a stock dividend on or about May 31, 2011 have been adjusted to account for each such stock split, as applicable.

	Option Awards						**Stock Awards**				
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of securities Underlying Unexercised Options (#) Unexercisable		Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)		Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Edward R. Rosenfeld	42,000	18,000	(1)	—	8.0733	3/24/2015	87,500	(2)	3,698,625	—	—
	168,750	56,250	(1)	—	8.3467	4/1/2016	—		—	—	—
Arvind Dharia	17,500	22,500	(3)	—	8.3467	4/1/2016	37,050	(4)	1,566,104	—	—
Awadhesh Sinha	—	—		—	—	—	25,000	(5)	1,056,750	—	—
Robert Schmertz	—	42,187	(6)	—	8.3467	4/1/2016	8,438	(7)	356,674	—	—
	—	45,002	(6)	—	16.4866	10/8/2016	—		—	—	—
Amelia Newton Varela	22,501	22,501	(8)	—	8.5866	4/29/2015	11,473	(9)	484,964	—	—
	—	42,189	(8)	—	8.3467	4/1/2016	—		—	—	—

11,250	33,751	(8)	—	21.6867	4/1/2017	—	—	—	—
—	112,500	(8)	—	25.4467	2/1/2018	—	—	—	—

(1) On March 24, 2008, Mr. Rosenfeld was granted an option to purchase 90,000 shares of the Company's Common Stock under the Company's 2006 Plan, which option vests in five equal annual installments commencing on the first anniversary of the date of grant. On April 1, 2009, Mr. Rosenfeld was granted an option to purchase 225,000 shares of the Company's Common Stock under the Company's 2006 Plan, which option vests in four equal annual installments commencing on the first anniversary of the date of grant.

(2) On November 10, 2009, Mr. Rosenfeld was awarded 112,500 shares of restricted Common Stock, which shares vest in five equal annual installments commencing on the first anniversary of the date awarded. On March 16, 2011, Mr. Rosenfeld was awarded 30,000 shares of restricted Common Stock, which shares vest in four equal annual installments commencing on the first anniversary of the date awarded. On March 14, 2012, Mr. Rosenfeld was awarded 20,000 shares of restricted Common Stock, which shares vest in five equal annual installments commencing on the first anniversary of the date awarded.

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(3) On April 1, 2009, Mr. Dharia was granted an option to purchase 90,000 shares of the Company's Common Stock under the Company's 2006 Plan, which option vests in four equal annual installments commencing on the first anniversary of the date of grant.

(4) On March 9, 2010, Mr. Dharia was awarded 18,000 shares of restricted Common Stock, which shares vest in five equal annual installments commencing on April 1, 2011. On March 16, 2011, Mr. Dharia was awarded 15,000 shares of restricted Common Stock, which shares vest in four equal annual installments commencing on the first anniversary of the date awarded. On February 8, 2012, Mr. Dharia was awarded 10,000 shares of restricted Common Stock, which shares vest in three substantially equal annual installments commencing on the first anniversary of the date awarded. On April 2, 2012, Mr. Dharia was awarded 5,000 shares of restricted Common Stock, which shares vest in five equal annual installments commencing on the first anniversary of the date awarded.

(5) On December 1, 2010, Mr. Sinha was awarded 52,500 shares of restricted Common Stock, which shares vest in three equal annual installments commencing on the first anniversary of the date awarded. On March 14, 2012, Mr. Sinha was awarded 7,500 shares of restricted Common Stock, which shares vest in five equal annual installments commencing on the first anniversary of the date awarded.

(6) On April 1, 2009, Mr. Schmertz was granted an option to purchase 168,750 shares of the Company's Common Stock under the Company's 2006 Plan, which option vests in four equal annual installments commencing on the first anniversary of the date of grant. On October 8, 2009, Mr. Schmertz was granted an option to purchase 112,500 shares of the Company's Common Stock under the Company's 2006 Plan, which option vests in five equal annual installments commencing on the first anniversary of the date of grant.

(7) On March 16, 2011, Mr. Schmertz was awarded 11,250 shares of restricted Common Stock, which shares vest in four equal annual installments commencing on the first anniversary of the date awarded.

(8) On April 29, 2008, Ms. Varela was granted an option to purchase 112,500 shares of the Company's Common Stock under the Company's 2006 Plan, which option vests in five equal annual installments commencing on the first anniversary of the date of grant. On April 1, 2009, Ms. Varela was granted an option to purchase 168,750 shares of the Company's Common Stock under the Company's 2006 Plan, which option vests in four equal annual installments commencing on the first anniversary of the date of grant. On April 1, 2010, Ms. Varela was granted an option to purchase 56,250 shares of the Company's Common Stock under the Company's 2006 Plan, which option vests in five equal annual installments commencing on the first anniversary of the date of grant. On February 1, 2011, Ms. Varela was granted an option to purchase 150,000 shares of the Company's Common Stock under the Company's 2006 Plan, which option vests in four equal annual installments commencing on the first anniversary of the date of grant.

(9) On March 14, 2012, Ms. Varela was awarded 11,473 shares of restricted Common Stock, which shares vest in five substantially equal annual installments commencing on the first anniversary of the date awarded.

OPTION EXERCISES AND STOCK VESTED IN THE 2012 FISCAL YEAR

The following table sets forth information concerning stock options exercised and restricted stock vested during the 2012 Fiscal Year for each of the Named Executive Officers. The value realized from exercised options is deemed to be the market value of the Common Stock on the date of exercise, less the exercise price of the option, multiplied by the number of shares of Common Stock underlying the option. The value realized from the vesting of restricted stock is deemed to be the market value of the Common Stock on the date of vesting multiplied by the number of shares vesting.

Name	Option Awards Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Stock Awards Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Edward R. Rosenfeld	—	—	39,000	1,658,700
Arvind Dharia	69,002	2,393,789	16,350	696,825
Awadhesh Sinha	—	—	17,500	778,925
Robert Schmertz	87,188	2,356,277	47,812	2,082,747
Amelia Newton Varela	79,686	2,183,010	—	—

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth information as of December 31, 2012 with respect to compensation plans (including individual compensation arrangements) under which shares of Common Stock are authorized for issuance, aggregated as follows:

All compensation plans previously approved by security holders; and

All compensation plans not previously approved by security holders.

EQUITY COMPENSATION PLAN INFORMATION

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (#) (a)	Weighted average exercise price of outstanding options, warrants and rights ($) (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (#) (c)
Equity compensation plans approved by security holders	2,269,000	20.57	4,512,000
Equity compensation plans not approved by security holders	—	—	—
Total	2,269,000	20.57	4,512,000

Termination, Change in Control and Non-Competition/Non-Solicitation

The employment agreements for each of the Named Executive Officers provide for a severance payment upon a termination of employment in connection with a change-in-control of the Company. The employment agreements of Messrs. Rosenfeld, Dharia and Sinha also provide for severance payment if the executive terminates his employment for good reason in connection with a change-in-control event. The change-in-control severance payments may result in the application of the “golden parachute” provisions of Section 280G of the Code and, to the extent Section 280G applies, the Company may not deduct from its taxable income the severance payments made to the Named Executive Officer. Moreover, Section 4999 of the Code would impose a 20% excise tax on the Named Executive Officer receiving the severance payment. In the case of Mr. Schmertz and Ms. Varela, these severance payments in connection with a change-in-control, however, are reduced if the severance payment, when added to any other benefits triggered by a change-of-control, is determined to constitute an “excess parachute payment” under Sections 280G and 4999 of the Code, to the maximum amount that is deductible to the Company under Section 280G of the Code. In the case of Messrs. Rosenfeld, Dharia and Sinha, the executive’s change-in-control severance payment will only be reduced to the maximum amount that is deductible to the Company under Section 280G of the Code if the reduction provides the Named Executive Officer with the best after-tax result; otherwise, the Named Executive officer will

receive the full amount of the severance payment and other benefits triggered by the change-in-control and be liable for the 20% excise tax on the excess parachute payment in addition to all other applicable taxes and, in such case, the deduction by the Company of the portion of the severance payment constituting an excess parachute payment will be disallowed.

The Company's employment agreements with each of the Named Executive Officers also provide for severance payments to the executive if the Company terminates the executive's employment without cause, or, in the case of Mr. Rosenfeld and Mr. Sinha, if the Company gives him good reason to terminate employment.

Please see the section of this Proxy Statement captioned "Employment Arrangements" for a summary description of the Named Executive Officers' employment agreements and such severance and change-in-control provisions. These benefits are described and quantified in the section of this Proxy Statement captioned "Potential Payments Upon Termination or Change-In-Control" below.

The Company believes that the severance payments and payments made upon change-in-control provisions in the employment agreements provide appropriate protection to the Company's executives, comparable to that available at peer companies, and, with regard to the enhanced severance following a change-in-control, protects the Company from losing key executives during a period when a change-in-control may be threatened or pending. These benefits are described and quantified in the section below captioned "Potential Payments Upon Termination or Change-In-Control."

Ms. Varela has agreed to a non-compete and non-solicitation restriction through the expiration date of her employment agreement, December 31, 2013, in the event of a voluntary termination or termination for cause. Messrs. Rosenfeld and Sinha have each agreed to a non-compete and non-solicitation restriction during the period of his employment and for a six-month period following the termination of his employment for cause or in the event of his resignation without good reason. Mr. Schmertz has agreed to a non-compete and non-solicitation restriction through December 31, 2015. Mr. Dharia does not have non-compete or non-solicitation provisions in his employment agreement.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL

The Company's employment agreements with the Named Executive Officers provide for payments to such individuals upon termination of employment or a change-in-control of the Company. Please see the section of this Proxy Statement captioned "Employment Arrangements." The amounts set forth in the table below shall be payable to the respective Named Executive Officer if such Named Executive Officer's employment is terminated under the various scenarios set forth below.

NAME AND PRINCIPAL POSITION	CASH PAYMENT		CONTINUATION OF MEDICAL / WELFARE BENEFITS (PRESENT VALUE)		ACCELERATION AND CONTINUATION OF EQUITY AWARD	REDUCTION OF BENEFITS UPON A CHANGE-IN-CONTROL (1)	TOTAL TERMINATION BENEFITS
	($)		($)		($)	($)	($)
TERMINATION DUE TO DEATH							
Edward R. Rosenfeld	578,813	(2)	6.409	(3)	—	—	585,222
Arvind Dharia	554,719	(4)	10,870	(3)	—	—	565,589
Awadhesh Sinha	575,000	(5)	10,870	(3)	—	—	585,870
Robert Schmertz	725,000	(6)	—		—	—	725,000
Amelia Newton Varela	—		—		—	—	—
TERMINATION DUE TO TOTAL DISABILITY							
	578,813	(2)	—		—	—	578,813

Edward R. Rosenfeld					
Arvind Dharia	554,719 (4)	—	—	—	554,719
Awadhesh Sinha	575,000 (5)	—	—	—	575,000
Robert Schmertz	725,000 (6)	—	—	—	725,000
Amelia Newton Varela	—	—	—	—	—
TERMINATION FOR CAUSE; RESIGNATION WITHOUT GOOD REASON					
Edward R. Rosenfeld	—	—	—	—	—
Arvind Dharia	—	—	—	—	—
Awadhesh Sinha	—	—	—	—	—
Robert Schmertz	—	—	—	—	—
Amelia Newton Varela	—	—	—	—	—
TERMINATION OTHER THAN FOR CAUSE; RESIGNATION FOR GOOD REASON					
Edward R. Rosenfeld	1,824,709 (7)	—	—	—	1,824,709
Arvind Dharia	1,109,438 (8)	94,833 (9)	—	—	1,204,271
Awadhesh Sinha	575,000 (10)	—	—	—	575,000
Robert Schmertz	1,450,000 (11)	—	—	—	1,450,000
Amelia Newton Varela	450,000 (12)	—	—	—	450,000
TERMINATION UPON A CHANGE-IN-CONTROL					
Edward R. Rosenfeld	4,324,250 (13)	—	6,222,334 (14)	(1,390,505)	10,546,584 (17)
Arvind Dharia	1,814,157 (15)	—	2,329,378 (14)	—	4,143,535
Awadhesh Sinha	4,576,256 (16)	—	1,056,750 (14)	—	5,633,006
Robert Schmertz	9,247,945 (18)	—	2,948,109 (14)	(2,470,391)	12,196,054 (17)
Amelia Newton Varela	7,339,094 (19)	—	5,261,323 (14)	(2,466,637)	12,600,417 (17)

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(1) The employment agreements of two of the Named Executive Officers provide that severance payments in connection with a change-in-control are reduced if the severance payment, when added to any other benefits triggered by a change-of-control, is determined to constitute an “excess parachute payment” under Sections 280G and 4999 of the Code, to the maximum amount that is deductible to the Company under Section 280G of the Code. The employment agreements of the remaining Named Executive Officers indicate that the executive’s change-in-control severance payment will only be reduced to the maximum amount that is deductible to the Company under Section 280G of the Code if the reduction provides the Named Executive Officer with the best after-tax result; otherwise, the Named Executive officer will receive the full amount of the severance payment and other benefits triggered by the change-in-control and be liable for the 20% excise tax on the excess parachute payment in addition to all other applicable taxes and, in such case, the deduction by the Company of the portion of the severance payment constituting an excess parachute payment will be disallowed.

(2) Consists of Mr. Rosenfeld’s base salary of $578,813, $607,754 and $638,142 for the years ending December 31, 2013, 2014 and 2015, respectively, which would be paid at regular intervals.

(3) Consists of medical benefits.

(4) Consists of Mr. Dharia’s 2013 base salary of $554,719, which would be paid at regular intervals.

(5) Consists of Mr. Sinha’s 2013 base salary of $575,000, which would be paid at regular intervals.

(6) Consists of Mr. Schmertz’s 2013 base salary of $725,000, which would be paid at regular intervals.

(7) Consists of the base salary ($578,813 for 2013) that would have been paid to Mr. Rosenfeld during the remainder of the term of his employment until the expiration of his employment agreement on December 31, 2015. Mr. Rosenfeld would receive these payments at regular intervals.

(8) Consists of Mr. Dharia’s 2012 base salary of $554,719 multiplied by the number of years (and fraction of years) remaining in the term of his employment agreement, which expires on December 31, 2014. Mr. Dharia would receive 50% of this payment immediately and the remaining 50% would be paid to him one year later (i.e., on December 31, 2013).

(9) Consists of one times the sum of Mr. Dharia’s life insurance payment ($83,963) per year) plus medical benefits ($10,870 per year).

(10) Consists of the base salary ($575,000) for the year ending December 31, 2013 that would have been paid to Mr. Sinha during the remainder of the term of his employment until the expiration of his employment agreement on December 31, 2013. Mr. Sinha would receive these payments at regular intervals.

(11) Consists of an annual base salary of $725,000 that would have been paid to Mr. Schmertz during the remainder of the term of his employment until the expiration of his employment agreement on December 31, 2014. Mr. Schmertz would receive these payments at regular intervals.

(12) Consists of the base salary of $450,000 that would have been paid to Ms. Varela during the remainder of the term of her employment until the expiration of her employment agreement on December 31, 2013. Ms. Varela would receive these payments at regular intervals.

(13) Consists of three times the average total compensation Mr. Rosenfeld actually received for the preceding three calendar years, except that in lieu of the actual base salary component received during such period, there has been substituted the annual base salary to which Mr. Rosenfeld was entitled as of the date of termination or

resignation. Upon a change-in-control, payments (or portions thereof) to Mr. Rosenfeld determined to constitute an "excess parachute payment" may be reduced to the maximum amount that would be tax deductible by the Company pursuant to Sections 280G of the Code. Upon a hypothetical December 31, 2012 change-in-control, this amount would have been reduced by $1,390,505 to reflect the maximum amount that would be tax deductible by the Company pursuant to Section 280G of the Code. See the "Implications of Tax and Accounting Matters" section of "Compensation Discussion and Analysis" for a discussion of the applicability of Sections 280G and 4999 of the Code to change-in-control payments generally. See also the summary of Mr. Rosenfeld's employment agreement under "Employment Arrangements."

(14) The amount disclosed represents the total value of the restricted stock and stock options which would have received accelerated vesting upon a hypothetical change in control on December 31, 2012.

(15) Consists of three times the total compensation Mr. Dharia actually received for the preceding twelve calendar months, except that in lieu of the actual base salary component received during such period, there has been substituted the annual base salary to which Mr. Dharia was entitled as of the date of termination or resignation. Upon a change-in-control, payments (or portions thereof) to Mr. Dharia determined to constitute an "excess parachute payment" may be subject to reduction to the maximum amount that would be tax deductible by the Company pursuant to Sections 280G of the Code. Upon a hypothetical December 31, 2012 change-in-control, no payments to Mr. Dharia would have been subject to reduction. See the "Implications of Tax and Accounting Matters" section of "Compensation Discussion and Analysis" for a discussion of the applicability of Sections 280G and 4999 of the Code to change-in-control payments generally. See also the summary of Mr. Dharia's employment agreement under "Employment Arrangements."

(16) Consists of three times the sum of base compensation and certain benefits Mr. Sinha actually received for the preceding twelve calendar months, except that in lieu of the actual base salary component received during such period, there has been substituted the annual base salary to which Mr. Sinha was entitled as of the date of termination or resignation. Upon a change-in-control, payments (or portions thereof) to Mr. Sinha determined to constitute an "excess parachute payment" may be subject to reduction to the maximum amount that would be tax deductible by the Company pursuant to Sections 280G of the Code. Upon a hypothetical December 31, 2012 change-in-control, no payments to Mr. Sinha would have been subject to reduction. See the "Implications of Tax and Accounting Matters" section of "Compensation Discussion and Analysis" for a discussion of the applicability of Sections 280G and 4999 of the Code to change-in-control payments generally. See also the summary of Mr. Sinha's employment agreement under "Employment Arrangements."

(17) The total amount does not include the amount deducted pursuant to Section 280G of the Code.

(18) Consists of three times the average total compensation Mr. Schmertz actually received for the preceding three calendar years. Upon a hypothetical December 31, 2012 change-in-control, this amount would have been reduced by $2,470,391 to reflect the maximum amount that would be tax deductible by the Company pursuant to Section 280G of the Code. See the "Implications of Tax and Accounting Matters" section of "Compensation Discussion and Analysis" for a discussion of the applicability of Sections 280G and 4999 of the Code to change-in-control payments generally. See also the summary of Mr. Schmertz's employment agreement under "Employment Arrangements."

(19) Consists of three times the average total compensation Ms. Varela actually received for the preceding three calendar years. Upon a hypothetical December 31, 2012 change-in-control, this amount would have been reduced by $2,466,583 to reflect the maximum amount that would be tax deductible by the Company pursuant to Section 280G of the Code. See the "Implications of Tax and Accounting Matters" section of "Compensation Discussion and Analysis" for a discussion of the applicability of Sections 280G and 4999 of the Code to change-in-control payments generally. See also the summary of Ms. Varela's employment agreement under "Employment Arrangements."

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Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management, and based on the review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Submitted by the Compensation Committee of the Company's Board of Directors:

Peter Migliorini (Chairman)
Thomas H. Schwartz

PROPOSAL TWO:

APPROVAL OF AN AMENDMENT TO
THE CERTIFICATE OF INCORPORATION OF STEVEN MADDEN, LTD.

Under the Company's Certificate of Incorporation, we are authorized to issue 65,000,000 shares of stock, 60,000,000 of which shares have been designated as shares of Common Stock and 5,000,000 of which shares have been designated as shares of preferred stock. Our Board of Directors has determined that it is in the best interests of the Company and our stockholders to amend our Certificate of Incorporation to increase the total number of shares of Common Stock that the Company is authorized to issue by 75,000,000 shares from 60,000,000 shares to 135,000,000 shares. The Board of Directors has unanimously approved the proposed amendment to the Certificate of Incorporation subject to approval of our stockholders and recommends that the stockholders approve and adopt such amendment. The following resolution is submitted for stockholder approval:

"RESOLVED, that the Certificate of Incorporation of Steven Madden, Ltd. (the 'Company') be, and it hereby is, amended by deleting the first paragraph of Article FOURTH thereof and substituting in lieu thereof a new first paragraph to read as follows:

FOURTH: The total number of shares of all classes of stock which the corporation shall have authority to issue is one hundred forty million (140,000,000) shares, consisting of one hundred thirty-five million (135,000,000) shares of common stock, $0.0001 par value per share, and five million (5,000,000) shares of preferred stock, $0.0001 par value per share.

; and that such amendment is hereby authorized, approved and adopted as and for the action of the stockholders of the Company."

If the amendment to the Certificate of Incorporation is approved by our stockholders, the amendment will become effective upon the filing of a certificate of amendment with the Secretary of State of the State of Delaware, which filing is expect to occur promptly after the Annual Meeting.

Purpose of the Amendment

The purpose of the amendment to the Company's Certificate of Incorporation is to increase the total number of shares of Common Stock that the Company is authorized to issue from 60,000,000 shares to 135,000,000 shares. Of our Company's 60,000,000 authorized shares of Common Stock, 46,231,961 shares were outstanding as of the Record Date, and, after taking into account shares underlying outstanding stock options, shares reserved for issuance under our equity-based compensation plans and shares held in Treasury, approximately 7,271,694 of the 60,000,000 shares of Common Stock authorized under our Certificate of Incorporation remain available for issuance.

The Board of Directors believes that the amendment is advisable and in the best interests of our Company and our stockholders in order to maintain our flexibility in considering and planning for future corporate needs in today's competitive and fast-changing environment. The Board believes that the authorized Common Stock should be increased to provide sufficient shares for general corporate purposes as may be determined by the Board of Directors in the exercise of its discretion such as for stock splits like those effected by the Company in 2011 and 2010. These purposes may include future stock splits, the issuance of Common Stock to facilitate potential acquisitions of or mergers with other companies, acquisitions of businesses or product lines, attracting and retaining employees by the issuance of additional securities under our various equity compensation plans and other transactions and such other corporate purposes that the Board of Directors deems are in our Company's best interests. The Board of Directors believes that additional authorized shares of Common Stock would enable us to take timely advantage of market conditions and favorable opportunities that may arise for these types of transactions, in most cases without the delay and expense associated with convening a special meeting of stockholders before such issuances. Other than issuances pursuant to employee benefit plans, as of the date of this Proxy Statement we have no current plans, commitments, agreements, arrangements or understandings regarding the issuance of additional shares of Common Stock that would be authorized pursuant to this proposal. However, we review and evaluate potential transactions and other corporate actions on an ongoing basis to determine if such actions would be in the best interests of our Company and our stockholders.

Possible Effects of the Amendment to the Company's Certificate of Incorporation

Upon issuance, the additional shares of authorized Common Stock would have rights identical to the currently outstanding shares of Common Stock. Adoption of the amendment would not have immediate dilutive effect on the proportionate voting power or other rights of existing stockholders. However, as is true for shares presently authorized but unissued, the future issuance of Common Stock authorized by the amendment may, among other things, dilute the earnings per share of the Common Stock, decrease existing stockholders' percentage equity ownership and, depending on the price at which they are issued, could be dilutive to the voting rights of existing stockholders and have a negative effect on the market price of the Common Stock. Current stockholders have no preemptive or similar rights, which means that current stockholders do not have a prior right to purchase any new issue of Common Stock in order to maintain their proportionate ownership thereof.

We have not proposed the increase in the number of authorized shares of Common Stock with the intention of using the additional authorized shares for anti-takeover purposes but our Company would be able to use the additional shares to oppose a hostile takeover attempt or delay or prevent changes in control or management of our Company. For example, without further stockholder approval, the Board of Directors could sell shares of Common Stock in a private transaction to purchasers who would oppose a takeover or favor our current Board of Directors. Such a sale could have the effect of discouraging an attempt by another person or entity, through the acquisition of a substantial number of shares of our Common Stock, to acquire our Company since the issuance could be used to dilute the stock

ownership of the acquirer. Although this proposal to increase the number of shares of authorized Common Stock has been prompted by business and financial considerations and not by any threat of any known or threatened hostile takeover attempt, stockholders should be aware that approval of this proposal could facilitate future attempts by our Company to oppose changes in control of our Company and perpetuate our management, including transactions in which the stockholders might otherwise receive a premium for their shares over then current market prices.

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We could also use the additional shares of common stock for potential strategic transactions, including, among other things, acquisitions, strategic partnerships, joint ventures, restructurings, business combinations and investments although we have no immediate plans to do so. We cannot provide assurances that any such transactions will be consummated on favorable terms or at all, that they will enhance stockholder value or that they will not adversely affect our business or the trading price of the common stock. Any such transactions may require our Company to incur non-recurring or other charges and may pose significant integration challenges and/or management and business disruptions, any of which could materially and adversely affect our business and financial results.

Our Board of Directors is also authorized, subject to certain limitations prescribed by law, without further stockholder approval, to issue from time to time up to an aggregate of 5,000,000 shares of preferred stock in one or more series and to fix or alter the designations, preferences, rights and any qualifications, limitation or restrictions of shares of each such series thereof, including the dividend rights, dividend rates, conversion rights, voting rights and terms of redemption of shares constituting any series or designations of such series. The rights of the holders of Common Stock will be subject to and may be adversely affected by, the rights of holders of preferred stock that may be issued in the future. Issuance of preferred stock could have the effect of making it more difficult for a third party to acquire or of discouraging a third party from acquiring a majority of the outstanding voting stock of the Company.

Required Vote

Approval of this resolution requires the affirmative vote of the holders of a majority of the outstanding shares of Common Stock.

Recommendation of the Board of Directors

The Board of Directors unanimously recommends a vote “FOR” the approval of the amendment to the Certificate of Incorporation of Steven Madden, Ltd.

PROPOSAL THREE:

RATIFICATION OF THE APPOINTMENT OF EISNERAMPER LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2013

The Audit Committee has appointed EisnerAmper LLP as the Company's independent registered public accounting firm to conduct the audit of the Company's books and records for the fiscal year ending December 31, 2013. EisnerAmper LLP also served as the Company's independent registered public accountants for the 2012 Fiscal Year.

Before making its determination on appointment, the Audit Committee carefully considers the qualifications and competence of candidates for the independent registered public accountants. For EisnerAmper LLP, this has included a review of its performance in prior years, its independence and processes for maintaining independence, the results of the most recent internal quality control review or Public Company Accounting Oversight Board inspection, the key members of the audit engagement team, the firm's approach to resolving significant accounting and auditing matters including consultation with the firm's national office, as well as its reputation for integrity and competence in the fields of accounting and auditing. Although ratification by stockholders is not required by the Company's organizational documents or other applicable law, the Audit Committee has determined that requesting ratification by stockholders of its appointment of EisnerAmper LLP as the Company's independent registered public accountants is a matter of good corporate practice. If stockholders do not ratify the selection, the Audit Committee will reconsider whether or not to retain EisnerAmper LLP, but may still retain the accounting firm. Even if the selection is ratified, the Audit Committee, in its discretion, may change the appointment at any time during the year if it determines that such a change would be in the best interest of the Company and its stockholders.

Representatives of EisnerAmper LLP are expected to be present at the Annual Meeting to respond to appropriate questions and to make a statement should they so desire.

Required Vote

The affirmative vote of the holders of a majority of the outstanding shares of Common Stock present or represented by proxy and entitled to vote at the Annual Meeting is required to ratify the Audit Committee's selection of EisnerAmper LLP.

Recommendation of the Board of Directors

The Board of Directors unanimously recommends a vote "FOR" the ratification of the appointment of EisnerAmper LLP as the Company's independent registered public accountants for the fiscal year ending December 31, 2013. Unless marked to the contrary, proxies received from stockholders will be voted in favor of ratifying the appointment of EisnerAmper LLP as the Company's independent registered public accountants for the fiscal year ending December 31, 2013.

Independent Registered Public Accounting Firm's Fees and Services

The aggregate fees billed to the Company by EisnerAmper LLP for professional services rendered for each of the past two years are set forth below:

	Year Ended December 31,	
	2012	2011
Audit Fees [1]	$700,000	$655,000
Audit-Related Fees [2]	25,000	25,000
Tax Fees [3]	46,850	0
All Other Fees [4]	148,465	339,000
Total	$920,315	$1,019,000

[1] Represents the aggregate fees and expenses billed for (a) the audit of the Company's annual financial statements, (b) the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q, (c) other statutory and regulatory filings or engagements and (d) the audit of the Company's internal controls over financial reporting.

[2] Represents the aggregate fees billed for audit-related fees related to assurance and related services. Includes, among others, the audit of the Company's employee benefit plans and other accounting related consultations.

[3] Represents the aggregate fees billed for tax compliance, tax advice and tax planning services. These professional services include assistance in the preparation of the Company's various federal, state and local tax returns, tax consultation and various amendments.

[4] Represents the aggregate fees billed (a) with respect to the 2012 Fiscal Year, for (i) due diligence services rendered in connection with two business acquisitions and (ii) out-of-pocket expenses incurred by EisnerAmper LLP in connection with services rendered to the Company and (b) with respect to the fiscal year ended December 31, 2011, for (ii) due diligence services rendered in connection with three business acquisitions and (ii) out-of-pocket expenses incurred by EisnerAmper LLP in connection with services rendered to the Company.

Audit Committee's Pre-Approval Policies and Procedures

Consistent with SEC policies regarding auditor independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent registered public accountants. In recognition of this responsibility, the Audit Committee has established a policy to review and pre-approve all audit and permissible non-audit services provided by the independent registered public accountants. These services may include audit services, audit-related services, tax services and other services.

Prior to engagement of the independent auditor for next year's audit, the Audit Committee will pre-approve all auditing services and all permitted non-audit services (including the fees and terms thereof), except those excluded from requiring pre-approval based upon the de minimus exception set forth in Section 10A(i)(1)(B) of the Exchange Act.

The Audit Committee's pre-approval policies and procedures are as follows: (a) prior to each fiscal year, the Audit Committee pre-approves a schedule of estimated fees for proposed non-prohibited audit and non-audit services, and (b) actual amounts paid are monitored by financial management of the Company and reported to the Audit Committee.

All work performed by EisnerAmper LLP as described above under the captions Audit Fees, Audit-Related Fees, Tax Fees and All Other Fees has been approved or pre-approved by the Audit Committee pursuant to the provisions of the Audit Committee's charter. The Audit Committee has considered and concluded that the provision of non-audit services is compatible with maintaining the independence of EisnerAmper LLP.

AUDIT COMMITTEE REPORT

The Audit Committee reviewed the Company's audited financial statements for the 2012 Fiscal Year and met with both management and representatives of EisnerAmper LLP, the Company's independent registered public accountants, to discuss such audited financial statements. Management and the Company's independent registered public accountants have represented to the Audit Committee that the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. The Audit Committee has received from and discussed with EisnerAmper LLP the written disclosures and the letter regarding EisnerAmper LLP's communications with the Audit Committee concerning independence as required by applicable requirements of the Public Company Accounting Oversight Board, and discussed with EisnerAmper LLP the independence of EisnerAmper LLP. The Audit Committee also discussed with EisnerAmper LLP any matters required to be discussed by Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T. Based on these reviews and discussions, the Audit Committee recommended to the Board that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the 2012 Fiscal Year.

Submitted by the Audit Committee of the Company's Board of Directors:

Richard P. Randall (Chairman)
Peter Migliorini
Ravi Sachdev

PROPOSAL FOUR:

NON-BINDING ADVISORY VOTE ON EXECUTIVE COMPENSATION

Section 14A of the Exchange Act, as created by Section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), and the rules and regulations promulgated thereunder, require a publicly traded company to include a resolution in its proxy statement at least once every three years seeking stockholder approval, on an advisory or non-binding basis, of the compensation of the named executive officers as disclosed in such company's proxy statement pursuant to the compensation rules of the SEC. At our 2011 Annual Meeting of Stockholders, the Company's stockholders approved, on an advisory basis, the holding of an advisory vote to approve executive compensation (commonly known as a "say-on-pay" proposal) on an annual basis. Based on these results, the Board of Directors determined to hold its advisory vote to approve executive compensation annually until the next frequency vote, which is scheduled for the Company's 2017 Annual Meeting of Stockholders. Accordingly, we are providing stockholders with a non-binding advisory vote on the compensation of our Named Executive Officers.

As described in more detail in the Compensation Discussion and Analysis section, which begins on page 21 of this Proxy Statement, the overall objective of the Company's executive compensation programs and practices is to support delivery of sustained operating and financial performance results with the ultimate goal being to create and maximize value for our stockholders on a long-term basis. We believe that our executive compensation programs and practices serve the interests of our stockholders by enabling us to attract and retain an experienced and effective management

team whose combined knowledge of our business and the footwear and accessories industry has proved extremely valuable in delivering results for our stockholders. The Compensation Committee and the Board of Directors believe that the Company's compensation programs and practices as articulated in the Compensation Discussion and Analysis section of this Proxy Statement effectively implement our philosophy of aligning compensation to stockholder interests and that the compensation received by our Named Executive Officers in the 2012 Fiscal Year reflects and supports such philosophy and goal and is commensurate with the performance and strategic position of the Company. We will continue to review and modify our executive compensation programs to address evolving best practices and changing regulatory require-ments.

We encourage stockholders to read the Compensation Discussion and Analysis section of this Proxy Statement, as well as the Summary Compensation Table and other related compensation tables and narrative disclosure contained in this Proxy Statement, all of which describe and explain in detail the compensation of our Named Executive Officers in the 2012 Fiscal Year.

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The following resolution is submitted for stockholder approval:

"**RESOLVED**, that the stockholders of Steven Madden, Ltd. (the 'Company') approve, on a non-binding advisory basis, the compensation paid to the Named Executive Officers of the Company as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the executive compensation as described in the section captioned 'Compensation Discussion and Analysis,' the Summary Compensation Table and related tabular disclosure and narrative discussion regarding compensation of Named Executive Officers under the caption 'Executive Compensation' contained in the Company's Proxy Statement dated April 9, 2013."

This vote is not intended to address any specific item of compensation, but rather the overall compensation of our Named Executive Officers and the compensation programs and practices described in this Proxy Statement. While this advisory vote on executive compensation, commonly referred to as a "say-on-pay" advisory vote, is required by Section 14A of the Exchange Act, it is not binding on our Board of Directors and may not be construed as overruling any decision by the Board of Directors or the Compensation Committee. However, we value the opinions of our stockholders. To the extent there is a significant vote against the compensation of the Named Executive Officers as disclosed in this Proxy Statement, the Board of Directors and the Compensation Committee will consider the outcome of the vote when considering future compensation arrangements and evaluate whether any actions are necessary to address the stockholders' concerns.

Required Vote

Approval of this resolution requires the affirmative vote of a majority of the shares of Common Stock present or represented by proxy and entitled to vote at the Annual Meeting.

Recommendation of the Board of Directors

The Board of Directors unanimously recommends a vote "FOR" the resolution approving the overall compensation of the Named Executive Officers for the 2012 Fiscal Year.

OTHER MATTERS

At the date of this Proxy Statement, the Company has no knowledge of any business other than that described above that will be presented at the Annual Meeting. If any other business should properly come before the Annual Meeting in connection therewith, it is intended that the persons named in the accompanying proxy will have discretionary authority to vote the shares which they represent.

A copy of the applicable provisions of the Company's By-Laws may be obtained by any stockholder, without charge, upon written request to the Secretary of the Company at the address set forth above.

WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE ANNUAL MEETING, PLEASE MARK, SIGN, DATE AND RETURN THE ACCOMPANYING PROXY CARD PROMPTLY. ALTERNATIVELY, YOU MAY VOTE YOUR SHARES BY TELEPHONE OR THROUGH THE INTERNET AS DESCRIBED ON THE ACCOMPANYING PROXY CARD. YOUR VOTE IS IMPORTANT. IF YOU ARE A STOCKHOLDER OF RECORD AND ATTEND THE ANNUAL MEETING AND WISH TO VOTE IN PERSON, YOU MAY WITHDRAW YOUR PROXY AT ANY TIME PRIOR TO THE VOTE.

STEVEN
MADDEN, LTD.

April 9, 2013
By:
Arvind
Dharia
Secretary
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STEVEN MADDEN, LTD.
ATTN: ARVIND DHARIA
52-16 BARNETT AVENUE
LONG ISLAND CITY, NY 11104

VOTE BY INTERNET - www.proxyvote.com
Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS
If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903
Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL
Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS
DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

	For All	Withhold All	For All Except	To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below.
The Board of Directors recommends you vote FOR the following:	o	o	o	
1. Election of Directors **Nominees**				

01 Edward R Rosenfeld 02 John L Madden 03 Peter Migliorini
04 Richard P Randall 05 Ravi Sachdev
06 Thomas H Schwartz

The Board of Directors recommends you vote FOR proposals 2, 3 and 4.	For	Against	Abstain
2 TO APPROVE AN AMENDMENT TO THE COMPANY S CERTIFICATE OF INCORPORATION TO INCREASE THE TOTAL NUMBER OF AUTHORIZED SHARES OF THE COMPANY S COMMON STOCK, $0.0001 PAR VALUE, FROM 60,000,000 SHARES TO 135,000,000 SHARES.	o	o	o
3 TO RATIFY THE APPOINTMENT OF EISNERAMPER LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2013.	o	o	o

4	TO APPROVE, BY NON-BINDING ADVISORY VOTE, THE EXECUTIVE COMPENSATION DESCRIBED IN THE STEVEN MADDEN, LTD PROXY STATEMENT.	o	o	o

NOTE: In their discretion, the proxies are authorized to vote upon such other business as may properly be presented at the meeting or any adjournments or postponements thereof.

	Yes	**No**
Please indicate if you plan to attend this meeting	o	o

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)	Date

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Notice & Proxy Statement, Annual Report with 10-K is/are available at www.proxyvote.com.

STEVEN MADDEN, LTD.
THIS PROXY IS BEING SOLICITED ON BEHALF OF
THE BOARD OF DIRECTORS

PLEASE CLEARLY INDICATE A RESPONSE BY CHECKING ONE OF THE BOXES NEXT TO EACH OF THE PROPOSALS

The undersigned stockholder(s) of Steven Madden, Ltd. (the Company) hereby appoint(s) Edward R. Rosenfeld and Arvind Dharia, and each of them, as attorneys and proxies, each with power of substitution and revocation, to represent the undersigned at the Annual Meeting of Stockholders of the Company to be held at the Company s showroom located at 1370 Avenue of the Americas, 14th Floor, New York, New York at 10:00 a.m., local time, on May 24, 2013 and at any adjournments or postponements thereof, with authority to vote all shares of Common Stock of the Company held or owned by the undersigned on April 3, 2013, in accordance with the directions indicated herein.

THIS PROXY WILL BE VOTED AS SPECIFIED HEREIN; UNLESS OTHERWISE INDICATED, THIS PROXY WILL BE VOTED (1) FOR THE ELECTION OF THE SIX (6) NOMINEES NAMED IN ITEM 1, (2) FOR THE APPROVAL OF AN AMENDMENT OF THE COMPANY S CERTIFICATE OF INCORPORATION, (3) FOR THE RATIFICATION OF THE APPOINTMENT OF EISNERAMPER LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR 2013, (4) FOR THE APPROVAL OF THE EXECUTIVE COMPENSATION DESCRIBED IN THE COMPANY S PROXY STATEMENT, AND (5) IN THE DISCRETION OF THE PROXIES ON ANY OTHER MATTER THAT MAY PROPERLY COME BEFORE THE MEETING.

Continued and to be signed on reverse side

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