

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

(Mark One)
 **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE YEAR ENDED DECEMBER 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

(State or other jurisdiction of
incorporation or organization)

280 PARK AVENUE, NEW YORK, NEW YORK

(Address of principal executive offices)

82-0572194

(I.R.S. Employer
Identification No.)

10017

(Zip code)

(212) 277-7100

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:

Common Stock, par value \$0.001 per share

Name of Each Exchange on Which Registered:

NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a 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

As of June 30, 2009, the aggregate market value of common stock held by non-affiliates was approximately \$161,981,863.

As of February 26, 2010, there were 29,075,998 shares of the registrant's common stock outstanding (excluding 247,030 shares held in treasury and 341,703 shares of restricted stock), par value \$0.001 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information from certain portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the fiscal year end of December 31, 2009.

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PART I.

ITEM 1. Business

We are a leading provider of outsourcing and transformation services focused on providing a competitive edge to our clients. Our outsourcing services provide integrated front-, middle- and back-office process outsourcing services for our primarily 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. 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. We serve primarily the needs of Global 1000 companies in the insurance, utilities, banking and financial services and transportation and logistics sectors.

Our services for each of the sectors include:



We combine in-depth knowledge of the industry sectors on which we are focused with proven expertise in transferring business operations to our offshore delivery centers and administering and managing them. We have successfully transferred more than 520 processes covering a broad array of products and services to our operations centers, including approximately 120 new processes that were transferred to us for clients in 2009.

Our largest clients in 2009 were Centrica plc (Centrica) and The Travelers Indemnity Company (Travelers). Other clients include over twenty of the leading U.S. insurance companies, a leading global credit card issuer and a Fortune 500 transportation services provider. Our operations centers are located in India, the Philippines and the Czech Republic and we are in the process of establishing a new operations center in Romania. Our geographical footprint enables us to leverage the large pool of highly qualified and educated technical professionals who are able to handle complex processes and services that require functional skills and industry

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expertise. While a majority of our professionals provide services in the English language, our operations in the Czech Republic have provided us with, and our operations center in Romania will provide us with, multi-lingual delivery capabilities. We believe we can offer consistent high quality services at substantially lower costs than those available from U.S.- or U.K.-based in-house facilities or U.S.- or U.K.-based outsourcing providers. As of December 31, 2009, we had a headcount of approximately 10,700 individuals (including personnel managed under structured client service agreements), a substantial portion of whom are based in India. Our operations platforms are supported by a state-of-the-art infrastructure that can be expanded to meet each client's needs. We market our services directly through our sales and marketing and strategic account management teams, which operate out of the United States and the United Kingdom, and our business development support team, which operates out of India. Our senior managers have extensive experience in the industry sectors on which we are focused and are well versed in the business practices of leading multinational corporations.

We believe our reputation for operational excellence is widely recognized by our clients and is an important competitive advantage. We use Six Sigma, a data-driven methodology for eliminating defects in any process, to identify process inefficiencies and improve productivity in client and support processes. We deliver continued process enhancements by soliciting and implementing process improvements from employees and through our proprietary software tools. As a part of our commitment to quality, we are certified to the ISO 9001:2000 standard for our quality management system. We are also certified to the ISO 27001:2005 standard for our information security management system. This standard requires policies and processes to be deployed to ensure adequate information security controls in the organization. Additionally we are also certified to the OHSAS 18001:2007 standard, which relates to our occupational health and safety management processes. We have also received an unqualified SAS 70 Type II opinion from Ernst & Young LLP, our independent registered public accounting firm, attesting to the effectiveness of our general control environment.

Services

Outsourcing Services

Our outsourcing services are structured around industry-focused business process outsourcing (BPO) services, such as insurance, utilities, banking and financial services and transportation and logistics, as well as cross-industry BPO services, such as finance and accounting services, collection services and customer services.

Insurance Services. Within the life insurance, property and casualty insurance, health insurance and retirement services business lines, we provide services in the areas of claims processing, premium and benefit administration, agency management, account reconciliation, policy research, policy servicing and customer service. We have acquired significant experience in transferring and managing processes in these areas.

Utilities. We provide end-to-end back-office processing for customer operations, including metering-related services and billing, value recovery operations, customer transfers and address changes, sales support, account reconciliation and collections. A large part of these services involves complex processing of transactions that cannot be managed by customary tools or methodologies.

Banking and Financial Services. We have significant expertise in servicing and processing various banking products, including residential mortgage lending, consumer finance, retail banking, credit cards, transaction services and other banking services. Our activities include customer service, transaction processing, underwriting support, documentation management, loss mitigation, administering reverse mortgage products and collateral monitoring.

Transportation and Logistics. We have developed and acquired expertise in processing transactions in the areas of end-to-end supply chain management, warehousing, transloading, transportation management and international logistics services. Our activities include freight bill audit, bill corrections, reference audit, bill entry, cargo claims and payment processing.

Finance and Accounting Services. We provide certain finance and accounting services, including accounts payable, research, reconciliation of accounts and lock-box accounting. We intend to expand our services in this

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sector to include expense accounting, financial accounting, account consolidation, departmental accounting, account balancing, accounting statements, budgeting and management information systems reporting.

Collections and Credit Operations. We use our proprietary skip-tracing tool to access location information instantly through multiple websites in order to trace people who have moved or absconded without notice to avoid paying debts. We have experience with a wide range of collection processes, including credit card receivables, large mortgage loan payments and business-to-business insurance premium collections, as well as extensive dialer management experience, both on our proprietary systems and client systems.

Customer Services. We provide a large array of customer management services, including e-mail management, customer service and web- and voice-based customer interaction functions.

Across the BPO services described above, we have successfully transferred and managed more than 520 processes, including the following:

Insurance Processes

Life, Health and Annuity

- *Administration of Insurance Agents*

Licensing and contracting renewals, terminations, correspondence, commissions and brokerage amounts, debt management, administrating unclaimed monies by insurance agents

- *New Business Processing*

Prescreening and acquiring new customers, underwriting, underwriting support, delivery requirements follow-up, policy issuance, fund application, refunds, non-sufficient funds, customer inquiries

- *Administration of Current Policies*

Title and address changes, beneficiary and owner changes, certificate reissuance, endorsement, policy transfers, quotes and reinstatements, loans, exchanges, policy term conversions, withdrawals, dividends, surrenders, maturities, direct debit instructions, customer service, billing, policy value, interest rates

- *Premium Administration*

Application of premium, loan and interest adjustment, daily premium balancing, suspended policy research, payment mode changes, customer correspondence and service

- *Claims Processing*

Examination, data gathering, adjudication, settlement, tax compliance and compliance with state laws, customer correspondence and service, disability and dental claims

- *Fixed Annuities*

Change of address, beneficiary changes, withdrawals, surrender requests, exchanges, rollovers, transfers, suspensions, tax information, document verification, billing, policy value, policy coverage, interest rates

Property and Casualty Insurance

- *New Business Processing*

Sales and conversion, quote acceptance, establishing new policies, policy upgrades, sales of multiple products, indexing

- *Administration of Current Policies*

Customer service, lapses and renewals, mid-term adjustments, account reconciliations

- *Claims Processing*

First notification of loss, initial reporting of claims and account initiation, data capture, customer service, technical claims, documentation, claims based on third party fault, total loss, scheduling on-site engineers' inspection visits, claims coverage, claims adjudication, utility review, auto liability adjudication, subrogation

- *Premium Administration*

Payment mode changes, collection, calculation and revision of premium

- *Broker Collections*

Broker query resolution, payment collection, debt management, payment reconciliation

- *Supplier Payments*

Invoice validation, claim validation and settlement, payment processing, supplier inquiries

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Life, Health and Annuity

- *Policy Research and Manual Calculation*

Research of policy history, manual calculation of policy values and correction of records, calculation of tax gain and details for IRS filing

Medical Insurance

Validation of permanent partial disability claims, collection of medical records, processing of Medicare set-aside packages and adjudication of claims

Property and Casualty Insurance

- *Appointment Scheduling*

Scheduling appointments between auditors and insureds

- *Motor Club Services*

Initial reporting of vehicle emergency and emergency road side services

Utilities, Banking and Financial Services, Transportation and Logistics and Other Processes

Utilities

- Account maintenance
- Credit operations
- Customer transfers
- Customer address changes
- Debt collections
- Device management
- Disputed readings
- Energy payment systems
- Metering and billing
- Sales support and acquisitions
- Withdrawals
- Imbalance
- Settlement operations

Consumer Finance

- Balance disputes
- Billing
- Consumer finance processing including verification, tracking and recording
- Collections

Retail Banking and Credit Cards

- Collections
- Customer service
- E-mail response
- Query resolution
- Portfolio reconciliation and reporting

Finance and Accounting

- Accounts payable management
- Booked vs. billed reconciliation
- Cash reconciliation
- Centralized payments

Mortgage Lending

- Broker license verification
- Broker due diligence
- Document management
- Loan underwriting support
- Loan verification
- Property tax servicing
- New loan set-up
- Post-close processes
- Rate modification
- Mortgage customer service
- Seller/broker queries
- Trailing documentation
- Wire approvals

Collections and Credit

- Automated dialing systems
- Collections from individuals
- Collections from businesses
- Pre and post charge-off collection

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Consumer Finance

- Credit approvals
- Inbound customer service
- Order status
- Loan payoff
- Telemarketing

Finance and Accounting

- Check reconciliation
- Collections reconciliation
- Credit control
- Cash management
- Financial closing and month-end reporting
- Manual intervention
- Meta-tagging and account taxonomy
- Procurement
- Travel and expense reporting
- Validation and payment

Collections and Credit

- Tracking debtors

Transportation and Logistics

- Bill correction
- Bill entry
- Cargo claims
- Freight bill audit
- Payment processing
- Reference audit

Customer Service Processes

- Voice, e-mail and blended processes
- Customer service, including changes in delivery date and desktop configuration, returns, billing issues, pre-sales information, concessions and discount vouchers for loyal customers, catalogue requests
- Fulfilling orders, including e-mail queries and online orders

Transformation Services

In addition to our outsourcing services, we offer a number of service offerings that we refer to collectively as transformation services. These offerings include decision analytics services, risk and financial management services and operations and process excellence services.

These transformation services focus on helping our clients by improving their operating environments through cost reduction, enhanced efficiency and productivity initiatives, and improving the risk and control environment within our clients' operations whether or not they are outsourced to us. Our transformation services have enabled us to expand our client base by providing complementary service offerings to our clients and also to

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migrate clients into our longer-term BPO services. We also provide annuity-based transformation services, which are engagements that are contracted for one to three year terms. We actively cross-sell and, where appropriate, integrate our transformation services with our BPO services as part of an integrated solution for our clients. Our transformation services team is comprised of approximately 500 professionals who provide services at our clients' locations or from our offshore delivery centers.

Decision Analytics

We offer decision analytics services, including data filtering, organization and synthesis, management information system reporting, trend and variance analysis, statistical and econometric modeling and economic and financial markets research. Our decision analytics services access and analyze large volumes of data from multiple sources in order to understand historical performance or behavior or to predict a particular outcome.

Our decision analytics services include analytical consulting, management consulting and analytical services. Analytical consulting and management consulting services include advising our clients on customer acquisition and retention, credit risk, customer data integration and fraud detection, marketing strategy, product and service strategy, volume forecasting, global resource optimization and scheduling. Analytical services include lead generation and marketing campaign management, collections services, primary/secondary research, data management and analysis. Our offerings emphasize our expertise within our industry focus areas including the financial services and insurance industries, complemented by quantitative modeling and business intelligence techniques as well as knowledge of relevant technology platforms.

We deliver these services through a team of industry specialists and graduates with mathematical, statistical, engineering, economics, business or accounting backgrounds. Most of our decision analytics team members have received post-graduate degrees in business or other quantitative or financial disciplines.

Risk and Financial Management

We offer governance, risk and compliance services as well as accounting and financial reporting services. Many of our professionals who provide these services are certified accountants, internal auditors and process and technology experts. Our governance, risk and compliance services include both compliance support and risk management and advisory services. Compliance support services include implementation and controls testing services that assist our clients with their efforts to comply with laws and regulations, such as the Sarbanes-Oxley Act of 2002, the Health Insurance Portability and Accountability Act, the EU's Data Protection Directive, and industry standards such as the Payment Card Industry Data Security Standard. Risk management and advisory services include supporting our clients' internal audit departments as well as evaluating our clients' enterprise resource planning and operational risk management control environment. We have also recently started to provide services designed to manage the cost of compliance and improve the efficiency and effectiveness of our clients' compliance and other risk management processes.

Our accounting and financial reporting services include transaction assurance, general accounting, financial reporting and finance and accounting process optimization services. Our transaction assurance services include account reconciliation, transaction data analysis and due diligence services for corporate transactions. In addition to providing general accounting services, we also provide financial statement analysis and preparation assistance for regulatory reports and filings. As part of our finance and accounting process optimization services, we evaluate the effectiveness of our clients' finance and accounting processes through various diagnostic methods.

Operations and Process Excellence Management

We assist clients in understanding, controlling and improving their business processes in a number of different industries with a view to improving the effectiveness and decreasing the cost of such processes. Our services identify business processes that can be improved by documenting processes, creating standard operating

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procedures, defining metrics and evaluation criteria as well as creating customized dashboards and reporting using our proprietary methodology. By diagnosing existing processes, we are able to assist our clients in improving their processes through modifying the processes by eliminating or automating certain activities. We are also able to assist our clients by transforming their business process using Six Sigma and Lean Six Sigma methodologies. Our professionals can advise on and subsequently manage and validate the effectiveness of enterprise-wide cost reduction or other projects.

Geographic and Segment Information

Please see the disclosures in notes 4 and 15 to our consolidated financial statements for segment and geographic information regarding our business.

Business Strategy

Our goal is to continue to be a leading provider of outsourcing and transformation services in the industry sectors on which we are focused. Specific elements of our growth strategy include:

Maintaining Our Focus on Large-scale, Long-term Relationships

We intend to continue to maintain our focus on large-scale, long-term client relationships. We believe there are significant opportunities for additional growth with our existing clients, and we seek to expand these relationships by increasing the depth and breadth of the services we provide. This strategy should allow us to use our in-depth client-specific knowledge to provide more fully integrated outsourcing and transformation services and develop closer relationships with our clients. Working with a small number of large-scale, long-term relationships also allows us to focus on quality and to devote the time and resources necessary to provide savings and process improvements and fully satisfy the needs of our clients.

Offering a Broad Range of Outsourcing and Transformation Services

In servicing our clients, we seek to differentiate ourselves by emphasizing the broad range of outsourcing and transformation services that we provide, including BPO, decision analytics, risk and financial management and operations and process excellence. We believe that clients are increasingly viewing their service providers as long-term partners that provide a full range of service offerings. Our evolving ability to provide services in complementary areas (such as decision analytics and risk and financial management services) will maximize opportunities for closely integrating our range of services with our clients' business needs and assisting our clients in transforming their outsourced processes to establish their industry leadership. We also intend to continue to develop additional advisory and related transformation services in order to expand our client base further, migrate clients into our longer-term BPO service offerings and provide our clients with integrated outsourcing and transformation services.

Expanding Our Client Base

We intend to develop long-term relationships that present recurring revenue opportunities with new clients by leveraging our industry experience and expanding our marketing activities in a manner designed to strengthen, encourage and accelerate long-term relationship building. We continue to target Global 1000 companies that have the most complex and diverse processes and accordingly stand to benefit significantly from the use of BPO. In developing these relationships, our primary focus will be to continue to provide complex and integrated BPO services to clients in the United States and United Kingdom, which together represent a substantial majority of the total BPO market. We believe that our geographically distributed network of operations centers will enable us to expand our client base and range of services. In developing new client relationships, we continue to be highly selective and seek industry-leading clients who are committed to long-term and strategic relationships with us.

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Extending Our Industry Expertise

We have developed expertise in transferring and servicing more than 520 BPO processes to our operations centers, including more than 325 processes in the insurance industry. This expertise continues to distinguish us from other offshore providers of BPO services and has established our reputation as a leading provider of BPO services. We intend to continue to strengthen our processing capabilities by focusing on the more complex and value-enhancing services that are common to these sectors. We have recently started performing services for the transportation sector, which yield many processes that fit our expertise. We intend to selectively identify industries in which we can develop domain expertise and provide a range of outsourcing and transformation services.

Continuing to Focus on Complex Processes

We intend to continue to leverage our industry expertise to provide increasingly more complex services for our clients. As a result of our established and developing industry expertise and knowledge of our clients' businesses and processes, our employees are able to handle processes that are non-routine and that cannot be readily automated or transferred to other parties. Examples of our newest outsourcing processes include auditing of insurance premiums, providing support for clients who are underwriting business insurance, analyzing invoices based on loss experience history, reviewing gas metering arrangements, verifying and settling cargo loss claims and calculating and recovering overpayments. Recent transformation services include the development and usage of tools to reconcile financial records and minimize sources of revenue leakage and the creation of methodologies to use risk-based analysis to maximize the effectiveness of marketing opportunities and campaigns.

Continuing to Invest in Operational Infrastructure

We intend to continue to invest in infrastructure, including human resources, process optimization and delivery platforms, to meet our growing client requirements. We intend to also continue to invest in developing and refining methodologies, analytical models, technology and tools. We intend to further refine and supplement the innovative methods we use to recruit, train and retain our skilled employees. We intend to continue to focus on recruiting highly qualified employees and to develop our employees' leadership skills through specialized programs, rigorous promotion standards, industry-specific training and competitive compensation packages that include incentive-based compensation. We also intend to continue our focus on process excellence by building on our extensive use of Six Sigma and similar methodologies to identify and eliminate inefficiencies, focusing on initiatives to solicit and implement process improvements from employees at all levels and continuing to develop proprietary tools to identify and deliver continued process enhancements. We also intend to invest in acquiring technology solutions that will enable greater processing capability or efficiency for our clients. We believe that doing so will enable us to increase the volume of business from our clients and provide value-added services. We intend to continue to invest in our operational infrastructure and operations centers in response to our growing client requirements and capability enhancements. During 2009, our operations center in Pune, India became operational and we commenced operations in the Czech Republic. We are also in the process of establishing new operations centers in Cluj, Romania and Noida and Jaipur, India.

Pursuing Strategic Relationships and Acquisitions

We intend to continue to selectively consider strategic relationships with industry leaders that add new long-term client relationships, enhance the depth and breadth of our services or complement our business strategy. We also intend to selectively consider acquisitions or investments that will expand the scope of our existing services, add new clients or allow us to enter new geographic markets. During 2009, we completed the acquisition of the back office operations of Schneider Logistics Europe S.R.O (Schneider S.R.O) in the Czech Republic and announced the entry into an asset purchase agreement to acquire the American Express Global Travel Services Center located in Gurgaon, India in 2009, which acquisition was completed on March 1, 2010.

Other Information

ExlService Holdings, Inc. was incorporated in Delaware on October 29, 2002.

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The Company files annual, quarterly and current reports, proxy statements and other information with the SEC under the Exchange Act. You may read and copy this information at the Public Reference Room of the SEC, Room 1580, 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically through the EDGAR System.

Certain U.S. dollar amounts in this Annual Report on Form 10-K have been converted from Indian rupees at a rate of 46.53 Indian rupees to \$1.00 and from U.K. pound sterling at a rate of U.K. pound sterling 1.00 to \$1.61, the exchange rates in effect as on December 31, 2009, unless otherwise specified.

The Company also maintains a website at <http://www.exlservice.com>. The Company makes available, free of charge, on its website its annual reports on Form 10-K, quarterly reports on Form 10-Q, proxy statements, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC.

The BPO Industry

BPO service providers work with clients to develop and deliver business operational improvements with the goal of achieving higher performance at lower costs. Outsourcing can enable organizations to enhance profitability and increase efficiency and reliability, permitting them to concentrate on their core areas of competence. BPO is a long-term strategic commitment for companies that, once implemented, is generally not subject to cyclical spending or information technology budget reductions. Organizations outsource their key business processes to third parties to reduce costs, improve process quality, handle increased transaction volumes and ensure redundancy. Increased global demand, cost improvements in international communications and the automation of many business services have created a significant opportunity for offshore business process service providers, and many companies are moving select office processes to providers with the capacity to perform these functions from overseas locations.

Companies have historically also used outsourcing to drive revenue growth by expanding service offerings that otherwise would be too costly to administer or through enhanced receivable collections that would not be cost-efficient to pursue using internal staff. We believe the demand for BPO services will be primarily led by industries that are transaction-driven and that require significant customer interactions, such as insurance, utilities, banking and financial services and transportation. The high cost of servicing a large number of small customer accounts makes outsourcing a compelling strategic alternative for these industries.

Trend towards Offshore Delivery of BPO Services

Global demand for high quality, lower-cost BPO services from external providers, combined with operational and cost improvements in international telecommunications and the automation of many business services, have created a significant opportunity for BPO service providers that are able to take advantage of an offshore talent pool. Many companies are moving selected front-, middle- and back-office processes to providers with the capacity to perform these functions from overseas locations.

Over the past decade, India and the Philippines have emerged as preferred locations for organizations planning to outsource services ranging from insurance claims processing, payroll processing, medical transcription, customer relationship management to back-office operations such as accounting and data processing, filtering and organization. India currently accounts for the largest share of the offshore BPO services market.

Sales and Marketing and Strategic Account Management

We market our services to new clients directly through our sales and marketing team and to our existing strategic clients through our strategic account management team. Our sales and marketing team and our strategic account management team operate out of the United States and United Kingdom and work closely with our business development team, which operates out of Noida, India.

Our sales and marketing and business development teams are responsible for new client acquisitions, public relations and participation in industry forums and conferences in the United States, the United Kingdom and India. Our sales and marketing and business development teams identify prospective clients based on selective criteria that apply our industry expertise to the prospective client's business lines, goals and operating constraints, and qualify the long-term relationship potential with the client. Our client relationships typically evolve from a single, discrete process into a series of additional complex, integrated processes across multiple business lines.

Our strategic account management team is responsible for serving as the primary relationship liaison for certain client relationships identified as strategic accounts and working with these clients to deploy our full suite of outsourcing and transformation service offerings to help these clients improve their operations. Strategic account management professionals are also responsible for working closely with the operations delivery team to ensure high levels of client satisfaction and are also responsible for business expansion and revenue growth from their strategic accounts.

Our sales and marketing and strategic account management professionals operate collaboratively with our business development professionals based in India, the United States, and the United Kingdom. These professionals focus on identifying, qualifying and initiating discussions with our current and prospective clients, while our business development team prepares responses to requests for proposals, hosts client visits to our facilities and coordinates due diligence on processes to be outsourced to us.

As of December 31, 2009, we had 26 sales and marketing and strategic account management professionals in the United States and the United Kingdom. Each member of these teams has significant experience in offshore outsourcing and has expertise in identifying outsourcing opportunities and process migration. We intend to selectively expand our sales and marketing and strategic account management teams. Our sales and marketing, strategic account management and business development teams work actively with our service delivery team as the sales process moves closer to the client's decision process to either select or expand their relationship with a service provider. The strategic account manager or sales executive works with the service delivery team to define the scope, services, assumptions and execution strategies for each proposed project and to develop project estimates and pricing and sales proposals. Senior management reviews and approves each proposal. The selling cycle varies depending on the type of service required and generally ranges from six months to eighteen months.

Members of our sales and marketing, strategic account management and business development teams remain actively involved in a project through the execution phase. Supporting each strategic account manager is a corporate sponsor, executive steering committee, operations leadership team and, in some cases, a dedicated human resources and infrastructure team.

Clients

We currently have approximately 80 clients. Our largest clients in 2009 were Centrica and Travelers, which together accounted for approximately 33.7% of our total revenues in 2009. Other clients include over twenty of the leading U.S. insurance carriers, a leading global credit card issuer and a Fortune 500 transportation services provider. While we are developing relationships with new clients and expect to continue to diversify our client base, we believe that the loss of either of our two largest clients could have a material adverse effect on our financial performance. See "Item 1A. Risk Factors—Risks Related to Our Business—We have a limited number of clients and provide services to few industries. In 2009, approximately 33.7% of our total revenues came from two clients."

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Our long-term relationships with our clients typically evolve from providing a single, discrete process into providing a series of complex, integrated processes across multiple business lines. For outsourcing services, we enter into long-term agreements with our clients with initial terms of between typically three and eight years. Agreements for transformation services generally have shorter initial terms. Each agreement is individually negotiated with the client.

We provide services to Centrica under an agreement that expires in April 2012. Centrica will have the option to extend the contract for two annual extension periods. This contract can be terminated by Centrica without cause upon three months prior notice and payment of a breakup fee. See “Item 1A. Risk Factors—Risks Related to Our Business—Our client contracts contain certain termination provisions that could have an adverse effect on our business, results of operations and financial condition.”

We provide services to Travelers under a services agreement and work assignments and orders generated thereunder. Although the services agreement does not have a fixed term, the work assignments and work orders expire in December 2013 and renew every year thereafter unless either party elects not to renew within a specified period before the next renewal date. Travelers may terminate the services agreement, or any work assignment or work order, without cause upon 60 days prior notice.

In addition, our agreements generally limit our liability to our clients to a maximum amount, subject in many cases to certain exceptions such as indemnification for third-party claims and breaches of confidentiality. In order to meet the specific needs of our clients, we enter into contracts with varying contractual provisions.

Competition

Competition in the BPO services industry is intense and growing. See “Item 1A. Risk Factors—Risks Related to Our Business—We face significant competition from U.S.-based and non-U.S.-based outsourcing and information technology companies and from our clients, who may perform outsourcing services themselves, either in-house, in the United States or through offshore groups or other arrangements.” Many companies, including certain of our clients, choose to perform some or all of their customer service, collections and back-office processes internally. Their employees provide these services as part of their regular business operations. Some companies have moved portions of their in-house customer management functions offshore, including to offshore affiliates. We believe our key advantage over in-house business processes is that we give companies the opportunity to focus on their core products and services while we focus on service delivery and operational excellence. We believe that clients who operate a hybrid business model—partnering with external BPO providers while handling other BPO functions in-house—have the opportunity to benchmark the performance of their internal BPO operations against ours.

We compete primarily against:

- BPO service companies based in offshore locations, particularly India, such as Genpact Limited (Genpact) and WNS (Holdings) Limited (WNS);
- the BPO divisions of large information technology, or IT, service companies and global BPO services companies located in the United States, such as Accenture, Cognizant Technology Solutions and International Business Machines;
- the BPO divisions of IT service companies located in India such as Infosys BPO (owned by Infosys Technologies Limited), Tata Consultancy Services Limited and Wipro BPO (owned by Wipro Technologies Limited); and
- leading accounting and management consulting firms.

We compete against these entities by establishing ourselves as a service provider with deep industry expertise, superior operational capabilities and process expertise, and unique transformation service capabilities, which enables us to respond rapidly to market trends and the evolving needs of our clients in this sector. See “—Business Strategy—Offering a Broad Range of Outsourcing and Transformation Services”; “—Extending Our Industry Expertise” and “—Continuing to Focus on Complex Processes.”

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We expect that competition may increase. A significant part of our competitive advantage has historically been a wage cost advantage relative to companies in the United States and Europe and the ability to attract and retain highly experienced and skilled employees. We believe, however, that as a result of rising wage costs in India and other locations of our operations centers and the infrastructure improvements that are taking place in other emerging markets around the world, our ability to compete effectively will increasingly depend on our ability to provide high quality, on-time, complex services that require expertise in certain technical areas and to expand geographically.

Intellectual Property

We generally use our clients' software systems and third-party software platforms to provide our services. We customarily enter into licensing and nondisclosure agreements with our clients with respect to the use of their software systems and platforms. Our contracts usually provide that all intellectual property created for use of our clients will automatically be assigned to our clients.

Our principal intellectual property consists of proprietary software and the know-how of our management. We have received approvals for several trademark applications, including applications for our logo and mark, with the U.S. Patent and Trademark Office and the U.K. Trademark Office. In addition, we have filed trademark applications for the EXL and INDUCTIS marks in India. We have four unregistered trademarks that are publicly used: MOST, EXL Collections System (ECS), ProMPT and MICROANALYTIX. MOST is a proprietary opportunity identification and migration methodology for processes that we have used in connection with a substantial majority of our process migrations. Our proprietary software includes our collections software called ECS, an automated web-enabled reconciliation software called E-Track, a software to generate customer lists called MICROANALYTIX and our web based process management and performance tracking service called ProMPT. ProMPT uses advanced analytics and assists our managers in process management and performance evaluation, including tracking individual performance of agents, team leaders and other employees. We consider our business processes and implementation methodologies to be confidential, proprietary information and to include trade secrets that are important to our business. Clients and business partners sign a nondisclosure agreement requiring confidential treatment of our information. Our employees are also required to sign confidentiality agreements as a condition to their employment.

Technology

We have a well-developed international telecommunications capacity to support our business operations. We use an international wide area network from India, the Philippines and the Czech Republic to connect to our points of presence in the United States and the United Kingdom. Our networking and telecommunications hubs are situated in Sunnyvale, California, and New York, New York, providing technology interface locations on the east and west coasts of the United States. Our business continuity management plan includes plans to eliminate certain risks inherent in critical applications by building redundancies and resilience into the connectivity and telecommunications infrastructure, network, systems, power availability, transportation, physical security, and trained manpower availability, as well as utilizing distributed computing.

To increase stable data and telecommunications capacity, we lease bandwidth from a number of different providers globally, including AT&T, VSNL, Cable & Wireless and British Telecom. Currently, we have a bandwidth of over 140 megabits-per-second, or Mbps, in the United States and over 90 Mbps in the United Kingdom, which we believe is adequate for our business. We have implemented multiprotocol label switching connectivity across all processing centers and technology hubs, which should allow seamless transition from one center to the other in case of an outage.

Our infrastructure is built on industry standards and we work closely with several leading original equipment manufacturers and principal technology partners. The robustness of our telecommunications network has allowed us to achieve an average network availability of over 99.7% for day-to-day operations.

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We customize our technology solutions in line with our clients' business and outsourcing requirements. Our technology teams are comprised of expert professionals from technology project management, infrastructure management, information security and technology operational service delivery, thereby permitting us to adapt our infrastructure services to our clients through various phases of our client engagements. We seek to understand our clients' business and outsourcing requirements and their process platforms, develop and implement customized services to our clients and deliver reliable services that facilitate the offshore conduct and management of their business processes.

Our methodology on business continuity management and information security involves implementation of an organization-wide framework, including our business operations, human resources, technology, facilities and marketing and communications divisions. The framework involves strategic planning, rigorous operational implementation, scheduled testing and simulations, reviews and strategy formulation.

We have the following systems in place to protect the privacy of our clients and their customers and to ensure compliance with the laws and regulations governing our activities:

- our information security policies comply with International Standards, including ISO 27001, for optimal management of various aspects of information security, including personnel, physical, systems and operations center security;
- our information security framework addresses compliance requirements and protection of our clients' and their customers' information;
- specific provisions for complying with the FDIC Safe Harbor Provisions, the Gramm-Leach-Bliley Act, the Health Insurance Portability and Accountability Act, the EU Privacy Directive and other client-specific needs;
- information systems teams formed for each client for the development, implementation and coordination of policies and procedures specific to that client's processes; and
- periodic internal and external audits and vulnerability assessments of both our information security management system and implemented controls.

Process Compliance and Management

We have an independent quality compliance team to monitor, analyze, provide feedback on and report process performance and compliance. In addition, we have a customer experience team to assess and improve end customer experience for all processes. Currently, we have over 280 quality compliance analysts and customer experience analysts.

We report process performance on ProMPT a web-based service accessible by both our clients and us that includes process control capabilities such as digital dashboards for evaluating process management and performance at any level within an organization, including tracking the individual performance of agents, team leaders and other employees. ProMPT includes advanced analytics capacity to provide Six Sigma-based process analysis, including trend analysis, distribution analysis and cause-and-effect analysis and tracking.

Employees

As of December 31, 2009, we had a headcount of approximately 10,700 individuals (including personnel managed under structured client service agreements), the substantial portion of whom are based in India. We have approximately 125 employees in the United States and United Kingdom, approximately 800 employees in the Philippines and an aggregate of approximately 250 employees in the Czech Republic and Romania. Our employees are not unionized. We have never experienced any work stoppages and believe that our employee relations are good.

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Hiring and Recruiting

Our employees are critical to the success of our business. Accordingly, we focus heavily on recruiting, training and retaining our professionals.

We have developed effective strategies that enable an efficient recruitment process. We have approximately 30 employees dedicated to recruitment. Some of the strategies we have adopted to increase efficiency in our hiring practices include online voice assessment and a centralized hiring center. Our hiring policies focus on identifying high quality employees who demonstrate a high propensity for learning, contribution to client services and growth. Candidates must undergo numerous tests and interviews before we extend offers for employment. We also conduct extensive background checks on candidates, including criminal background checks as required by clients or on a sample basis. In addition, we perform random drug testing on the workforce on a regular basis. In 2009, we received more than 30,000 applications for employment and hired approximately 4,000 new professionals. We also have an employee referral program that provides us with a cost effective way of accessing qualified potential employees.

We offer our professionals competitive compensation packages that include significant incentive-based compensation and offer a variety of benefits, including free transport to and from home in certain circumstances, subsidized meals and free access to recreational facilities that are located within our operations centers. Our turnover rate for billable employees—employees who execute business processes for our clients following the completion of our six-month probationary period—has come down significantly from approximately 34.0% for the year ended December 31, 2008 to approximately 22.6% for the year ended December 31, 2009. However, as competition in our industry increases, our turnover rate could increase. See “Item 1A. Risk Factors—Risks Related to Our Business—We may fail to attract and retain enough sufficiently trained employees to support our operations, as competition for highly skilled personnel is intense and we experience significant employee turnover rates.”

Training and Development

We dedicate significant resources to the training and development of our professionals. At December 31, 2009, we had over 160 full-time certified trainers. Our trainers work with professionals in our recruitment, operations and quality control teams to create an end-to-end process for value addition, skill evaluation, skill enhancement and certification. We also use training to provide continuity by linking skill assessment at the point of recruitment to subsequent assessment and on-the-job training.

We customize our training design to country, client, industry and service, closely collaborating with the client throughout the training process. Approximately 900 employees received training on the insurance industry and processes at an insurance academy established by us in 2009. Training for new employees includes culture, voice and accent training. We also have ongoing training that includes refresher training programs and personality development programs. In addition, we develop our employees’ leadership skills through leadership development programs, other talent identification and performance management mechanisms and significant monetary and non-monetary incentives. We have also developed career development programs for our middle and junior management employees that help them define and identify their career paths within the company. In 2009, over 400 managers and assistant vice presidents participated in over 9,500 hours of training.

Regulation

Because of the diversity and highly complex nature of our service offerings, our operations are subject to a variety of rules and regulations and several U.S. and foreign federal and state agencies regulate aspects of our business. In addition, our clients may contractually require that we comply with certain rules and regulations, even if those rules and regulations do not actually apply to us. Failure to comply with any applicable laws and regulations could result in restrictions on our ability to provide our products and services, as well as the imposition of civil fines and criminal penalties, which could have a material adverse effect on our operations.

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We are one of the few service providers that can provide third-party administrator insurance services from India in 45 states of the United States and from the Philippines in 14 states of the United States, having been licensed or exempted from, or not subject to, licensing in each of those states, which may help make us an attractive service provider to future clients.

Our debt collection services may be subject to the Fair Debt Collection Practices Act, which regulates debt collection practices. In addition, many states require a debt collector to apply for, be granted and maintain a license to engage in debt collection activities within a state. We are currently licensed (or exempt from licensing requirements) to provide debt collection services from India in all but two states in the United States and from the Philippines in 35 states of the United States that have non-exempt requirements and have separate conditional exemptions with respect to our ongoing collection obligations.

Our operations are also subject to compliance with a variety of other laws, federal and regulations that apply to certain portions of our business such as the Fair Credit Reporting Act, the Gramm-Leach-Bliley Act, the Health Insurance Portability and Accountability Act of 1996, the Truth in Lending Act, the Fair Credit Billing Act, the Fair Debt Collection Practices Act and U.S. Federal Deposit Insurance Company, or FDIC, rules and regulations. Our client contracts specify what particular regulatory requirements we must meet in connection with the services we provide. We train our employees regarding the applicable laws and regulations.

Regulation of our business by the Indian government affects our business in several ways. We benefit from certain tax incentives promulgated by the Indian government, including a tax holiday from Indian corporate income taxes for the operation of most of our Indian operations centers. The tax benefit for some of the operations centers will expire in March 2010. See “Item 1A. Risk Factors—Risks Related to the International Nature of our Business—Our financial condition could be negatively affected if foreign governments reduce or withdraw tax benefits and other incentives currently provided to companies within our industry, or if the same are not available for other reasons.” Our subsidiaries in India are also subject to certain currency transfer restrictions. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Foreign Exchange” and “—Income Taxes.”

ITEM 1A. Risk Factors

Risks Related To Our Business

We have a limited number of clients and provide services to few industries. In 2009, approximately 33.7% of our total revenues came from two clients.

We have derived and believe that we will continue to derive a substantial portion of our total revenues from a limited number of large clients. In 2009, our two largest clients, Centrica and Travelers, accounted for approximately 33.7% of our total revenues. We generated 20.5% of our total revenues in 2009 from Centrica and 13.2% of our total revenues in 2009 from Travelers. We provide services to Centrica under an agreement that expires in April 2012. Centrica has the option to extend the contract for two annual extension periods. This contract can be terminated by Centrica without cause upon three months prior notice and payment of a breakup fee. We provide services to Travelers under a services agreement and work assignments and orders generated thereunder. Although the services agreement does not have a fixed term, the work assignments and work orders expire in December 2013 and renew every year thereafter unless either party elects not to renew within a specified period before the next renewal date. Travelers may terminate the services agreement, or any work assignment or work order, without cause upon 60 days prior notice. We expect that a significant portion of our total revenues will continue to be contributed by a limited number of large clients in the near future. The loss or financial difficulties of either of our large clients would have a material adverse effect on our business, results of operations, financial condition and cash flows.

The impact of the ongoing global economic downturn could negatively affect our business in multiple ways.

The ongoing global economic downturn has adversely impacted companies in the industries to which we provide services including the banking, financial services and insurance industries. A substantial portion of our clients are concentrated in the insurance and utilities industry. In 2009, 78.8% of our total revenues were derived from clients in those industries, including 54.6% of our total revenues that were derived from clients in the insurance industry. Our business largely depends on continued demand for our services from clients and potential clients in these industries. Adverse developments in these industries could further unfavorably affect our business. Other developments, such as consolidations, restructurings or reorganizations, particularly involving our clients, could also cause the demand for our services in these industries to decline.

We currently derive, and are likely to continue to derive, a significant portion of our revenues from clients located in the United States. Since the end of 2008, the United States economy has been in a recession and undergoing a period of substantial economic uncertainty, resulting in credit market dislocations, declining business and consumer confidence and increased unemployment. A continuing deterioration in economic activity in the United States could adversely affect demand for our services, thus reducing our revenues.

In addition, the decrease in the general level of economic activity, such as decreases in business and consumer spending, could result in a decrease in demand for our services, particularly our transformation services, thus reducing our revenue. The cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Continued turbulence in global markets and economies may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our clients. If these market conditions continue, they may limit our ability to access financing or increase our cost of financing to meet liquidity needs, and affect the ability of our customers to use credit to purchase our services or to make timely payments to us, resulting in adverse effects on our financial condition and results of operations. If macroeconomic conditions worsen, we may not be able to predict the impact such worsening conditions will have on our targeted industries in general, and our results of operations specifically.

Our industry may not develop in ways that we currently anticipate due to negative public reaction in the United States and elsewhere to offshore outsourcing, recently proposed legislation or otherwise.

We have based our strategy of future growth on certain assumptions regarding our industry and future developments in the market for outsourcing services. For example, we believe that there will continue to be

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changes in product and service requirements, and investments in the products offered by our clients will continue to increase. However, the trend to outsource business processes may not continue and could reverse. Offshore outsourcing is a politically sensitive topic in the United States and elsewhere, and many organizations and public figures have publicly expressed concern about a perceived association between offshore outsourcing providers and the loss of jobs in the United States and elsewhere. In addition, there has been limited publicity about the negative experience of certain companies that use offshore outsourcing, particularly in India. Current or prospective clients may elect to perform such services themselves or may be discouraged from transferring these services to offshore providers to avoid any negative perception that may be associated with using an offshore provider. Any slowdown or reversal of existing industry trends would harm our ability to compete effectively with competitors that operate out of facilities located in the United States and elsewhere.

A variety of U.S. federal and state legislation has been proposed that, if enacted, could restrict or discourage U.S. companies from outsourcing their services to companies outside the United States. For example, legislation has been proposed that would require offshore providers to identify where they are located and that would require notice to individuals whose personal information is disclosed to non-U.S. companies. Because most of our clients are located in the United States, any expansion of existing laws or the enactment of new legislation restricting offshore outsourcing could adversely impact our ability to do business with U.S. clients and have a material and adverse effect on our business, results of operations, financial condition and cash flows. In addition, it is possible that legislation could be adopted that would restrict U.S. private sector companies that have federal or state government contracts or financing from outsourcing their services to offshore service providers. Such restrictions could affect our ability to attract or retain clients that have such contracts in the future.

In other countries, such as the United Kingdom, which comprised 33.9% of our total revenues in 2009, there has also been some negative publicity and concern expressed regarding the possible effect of job losses caused by outsourcing. Legislation introduced in the United Kingdom (consolidating past case law) in 2006 provides that if a company transfers or outsources its business or a part of its business to a transferee or a service provider, the employees who were employed in such business are entitled to become employed by the transferee or service provider on the same terms and conditions as they had been employed before the transfer. The dismissal of such employees as a result of such transfer of business is deemed unfair dismissal and entitles the employees to compensation. As a result, we may become liable for redundancy payments to the employees of our clients in the United Kingdom who outsource business to us. We are generally indemnified in our existing contracts with clients in the United Kingdom to the extent we incur losses or additional costs due to the application of this legislation to us, and we intend to obtain indemnification in future contracts with clients. However, if we are unable to obtain indemnification in future contracts with clients, we may be liable under any agreements we enter into in the future with United Kingdom clients. Similar legislations has also been enacted in certain other European jurisdictions.

Our client contracts contain certain termination and other provisions that could have an adverse effect on our business, results of operations and financial condition.

Most of our client contracts may be terminated by our clients without cause and do not commit our clients to provide us with a specific volume of business. Any failure to meet a client's expectations could result in a cancellation or non-renewal of a contract or a decrease in business provided to us. We may not be able to replace any client that elects to terminate or not renew its contract with us, which would reduce our revenues. For example, we provide services to Centrica under an agreement that can be terminated by Centrica without cause upon three months prior notice and payment of a breakup fee and we provide services to Travelers under a services agreement that Travelers may terminate without cause upon 60 days prior notice. We generated 20.5% of our total revenues in 2009 from Centrica and 13.2% of our total revenues in 2009 from Travelers. The termination of either of these contracts with or without cause could have a material adverse impact on the predictability of our expected revenue stream.

A limited number of our contracts allow a client, in certain limited circumstances, to request a benchmark study comparing our pricing and performance with that of an agreed list of other service providers for

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comparable services. Based on the results of the study and depending on the reasons for any unfavorable variance, we may be required to make improvements in the services we provide or reduce the pricing for services on a prospective basis to be performed under the remaining term of the contract or our client could elect to terminate the contract, which could have an adverse effect on our business, results of operations and financial condition. Many of our contracts contain provisions that would require us to pay penalties to our clients and/or provide our clients with the right to terminate the contract if we do not meet pre-agreed service level requirements or if we do not provide certain productivity benefits. Failure to meet these requirements or accurately estimate the productivity benefits could result in the payment of significant penalties by us to our clients which in turn could have a material adverse effect on our business, results of operations and financial condition. Many of our contracts with clients specify that if a change of control of our company occurs during the term of the contract, the client has the right to terminate the contract. These provisions may result in our contracts being terminated if there is such a change in control, resulting in a potential loss of revenues. In addition, these provisions may act as a deterrent to any attempt by a third party to acquire our company.

We may fail to attract and retain enough sufficiently trained employees to support our operations, as competition for highly skilled personnel is intense and we experience significant employee turnover rates.

The BPO industry is very labor intensive and our success depends to a significant extent on our ability to attract, hire, train and retain qualified employees, including our ability to attract employees with needed skills in the geographic areas in which we operate. The industry, including us, experiences high employee turnover. In 2009, our turnover rate for billable employees was approximately 22.6%. There is significant competition for professionals with skills necessary to perform the services we offer to our clients. Increased competition for these professionals, in the BPO industry or otherwise, could have an adverse effect on us. A significant increase in the turnover rate among our employees, particularly among the highly skilled workforce needed to provide BPO services, would increase our recruiting and training costs and decrease our operating efficiency, productivity and profit margins, and could lead to a decline in demand for our services. High turnover rates generally do not impact our revenues as we factor the attrition rate into our pricing models by maintaining additional employees for each process. However, high turnover rates do increase our cost of revenues and therefore impact our profit margins due to higher recruitment, training and retention costs as a result of maintaining larger hiring, training and human resources departments and higher operating costs due to having to reallocate certain business processes among our operations centers where we have access to the skilled workforce needed for the business. In 2009, we incurred approximately \$1.1 million on recruitment and approximately \$0.7 million on training costs due to employee turnover, thereby increasing our costs and reducing our profit margins for that period by \$1.8 million.

In addition, our ability to maintain and renew existing engagements and obtain new business will depend, in large part, on our ability to attract, train and retain personnel with skills that keep pace with the demand for outsourcing, evolving industry standards and changing client preferences. A lack of sufficiently qualified personnel could also inhibit our ability to establish operations in new markets and our efforts to expand geographically. Our failure to attract, train and retain personnel with the qualifications necessary to fulfill the needs of our existing and future clients or to assimilate new employees successfully could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We have a long selling cycle for our BPO services that requires significant funds and management resources and a long implementation cycle that requires significant resource commitments.

We have a long selling cycle for our BPO services, which requires significant investment of capital, resources and time by both our clients and us. Before committing to use our services, potential clients require us to expend substantial time and resources educating them as to the value of our services and assessing the feasibility of integrating our systems and processes with theirs. Our clients then evaluate our services before deciding whether to use them. Therefore, our selling cycle, which generally ranges from six to eighteen months, is subject to many risks and delays over which we have little or no control, including our clients' decision to

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choose alternatives to our services (such as other providers or in-house offshore resources) and the timing of our clients' budget cycles and approval processes. In addition, we may not be able to successfully conclude a contract after the selling cycle is complete.

Implementing our services involves a significant commitment of resources over an extended period of time from both our clients and us. Our clients may also experience delays in obtaining internal approvals or delays associated with technology or system implementations, thereby delaying further the implementation process. Our clients and future clients may not be willing or able to invest the time and resources necessary to implement our services, and we may fail to close sales with potential clients to which we have devoted significant time and resources, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Once we are engaged by a client, it may take us several months before we start to recognize significant revenues.

When we are engaged by a client after the selling process for our BPO services, it takes from four to six weeks to integrate the client's systems with ours, and up to three months thereafter to build up our services to the client's requirements. Depending on the complexity of the processes being implemented, these time periods may be significantly longer. Implementing processes can be subject to potential delays similar to certain of those affecting the selling cycle. Therefore, we do not recognize significant revenues until after we have completed the implementation phase.

We enter into long-term contracts with our BPO clients, and our failure to estimate the resources and time required for our contracts may negatively affect our profitability.

The initial terms of our BPO client contracts typically range from three to five years. In many of our BPO contracts we commit to long-term pricing with our clients and therefore bear the risk of cost overruns, completion delays, wage inflation and adverse movements in exchange rates in connection with these contracts. If we fail to estimate accurately the resources and time required for a contract, future wage inflation rates or currency exchange rates (or fail to accurately hedge our currency exchange rate exposure) or if we fail to complete our contractual obligations within the contracted timeframe, our revenues and profitability may be negatively affected.

Consistency in our revenues from period to period depends in part on our ability to reflect the changing demands and needs of our existing and potential BPO clients. If we are unable to adjust our pricing terms or the mix of products and services we provide to meet the changing demands of our BPO clients and potential BPO clients, our business, results of operations and financial condition may be adversely affected.

Most of our BPO contracts use a pricing model that provides for hourly or annual billing rates. Industry pricing models are evolving, however, and we anticipate that clients may increasingly request transaction-based pricing. This pricing model will place additional pressure on the efficiency of our service delivery so that we can maintain reasonable operating margins. If we are unable to adapt our operations to evolving pricing protocols, our results of operations may be adversely affected or we may not be able to offer pricing that is attractive relative to our competitors.

In addition, the BPO services we provide to our clients and the revenues and income from those services may decline or vary as the type and quantity of services we provide under those contracts changes over time, including as a result of a shift in the mix of products and services we provide. Furthermore, our clients, some of which have experienced significant and adverse changes in their prospects, substantial price competition and pressures on their profitability, have in the past and may in the future demand price reductions, automate some or all of their processes or change their outsourcing strategy by moving more work in-house or to other providers, any of which could reduce our profitability. Any significant reduction in or the elimination of the use of the services we provide to any of our clients, or any requirement to lower our prices, would harm our business.

Our transformation services are cyclical and based on specific projects involving short-term contracts.

Our transformation services, such as our decision analytics services and our risk and financial management services, are cyclical and can be significantly affected by variations in business cycles. Changes in the deadlines or the scope of work required for compliance with the requirements of legislation applicable to our clients could have a significant impact on certain service offerings of our risk and financial management services business.

In addition, a majority of our decision analytics services and our risk and financial management services 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 material fluctuations and uncertainties in the revenues generated from these businesses.

Our operating results may experience significant variability and as a result it may be difficult for us to make accurate financial forecasts.

Our operating results may vary significantly from period to period. Although our existing agreements with original terms of three or more years provide us with a relatively predictable revenue base for a substantial portion of our business, the long selling cycle for our services and the budget and approval processes of prospective clients make it difficult to predict the timing of new client acquisitions. The timing of revenue recognition under new client agreements also varies depending on when we complete the implementation phase. The completion of implementation varies significantly based upon the complexity of the processes being implemented.

Our period-to-period results have in the past and may also in the future fluctuate due to other factors, including client losses, delays or failure by our clients to provide anticipated business, variations in employee utilization rates resulting from changes in our clients' operations, delays or difficulties in expanding our operations centers and infrastructure (including hiring new employees or constructing new operations centers), changes to our pricing structure or that of our competitors, currency fluctuation, seasonal changes in the operations of our clients and other events identified in this Annual Report on Form 10-K. Our revenues are also affected by changes in pricing under our contracts at the time of renewal or by pricing under new contracts. For example, because the majority of our revenues are denominated in U.K. pounds sterling or U.S. dollars while most of our expenses are incurred and paid in Indian rupees and the Philippine peso, our revenues can decrease or increase significantly if the exchange rates among the Indian rupee, the U.K. pound sterling, the Philippine peso and the U.S. dollar fluctuate significantly. In addition, some of our contracts do not commit our clients to provide us with a specific volume of business. These factors may make it difficult to make accurate financial forecasts or replace anticipated revenues that we do not receive as a result of delays in implementing our services or client losses. If our actual results do not meet any estimated results that we announce, or if we underperform market expectations as a result of such factors, trading prices for our common stock could be adversely affected.

Our senior management team is critical to our continued success and the loss of one or more members of our senior management team could harm our business.

Our future success substantially depends on the continued services and performance of the members of our management team and other key employees possessing technical and business capabilities, including industry expertise, that are difficult to replace. Specifically, the loss of the services of our Executive Chairman, Vikram Talwar, or of our President and Chief Executive Officer, Rohit Kapoor, could seriously impair our ability to continue to manage and expand our business. There is intense competition for experienced senior management and personnel with technical and industry expertise in the industry in which we operate, and we may not be able to retain these officers or key employees. Although we have entered into employment and non-competition agreements with all of our executive officers, certain terms of those agreements may not be enforceable and in any event these agreements do not ensure the continued service of these executive officers. Messrs. Talwar and Kapoor and certain of their affiliates have certain registration rights with respect to their shares of common stock.

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In addition, we currently do not maintain “key person” insurance covering any member of our management team. The loss of any of our key employees, particularly to competitors, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our inability to effectively manage our rapid infrastructure and personnel growth could have a material adverse effect on our operations, results of operations and financial condition.

Since we were founded in April 1999, we have experienced rapid growth and significantly expanded our operations. We have ten operations centers in India, one in the Philippines and one in the Czech Republic. Our headcount has increased from approximately 1,800 on December 31, 2002 to approximately 10,700 (including personnel managed under structured client service agreements) on December 31, 2009. We expect to develop and improve our internal systems in the locations where we operate in order to address the anticipated growth of our business. We are in the process of establishing new operation centers in Romania and India and are also continuing to look for operation centers at additional locations outside of India and the Philippines. We believe expanding our geographic base of operations will provide higher value to our clients by decreasing the risks of operating from a single country (including potential shortages of skilled employees, increases in wage costs during strong economic times and currency fluctuations), while also giving our clients access to a wider talent pool and establishing a base in countries that may be competitive in the future. However, we may not be able to effectively manage our infrastructure and employee expansion, open additional operations centers or hire additional skilled employees as and when they are required to meet the ongoing needs of our clients, and we may not be able to develop and improve our internal systems. Our inability to execute our growth strategy, to ensure the continued adequacy of our current systems or to manage our expansion effectively could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may engage in strategic transactions that could create risks.

As part of our business strategy, we intend to continue to selectively consider acquisitions or investments, some of which may be material. Through the acquisitions we pursue, we may seek opportunities to expand the scope of our existing services we provide, add new clients or to enter new geographic markets. We have made acquisitions in the past, including our acquisition in 2009 of the back office operations of Schneider S.R.O. in the Czech Republic and our acquisition in 2010 of the American Express Global Travel Services Center located in Gurgaon, India. There can be no assurance that we will find suitable candidates in the future for strategic transactions at acceptable prices, have sufficient capital resources to accomplish our strategy or be successful in entering into agreements for desired transactions.

Acquisitions, including completed acquisitions, also pose the risk that any business we acquire may lose customers or employees or could underperform relative to expectations. We could also experience financial or other setbacks if transactions encounter unanticipated problems, including problems related to execution or integration. Following the completion of an acquisition, we may have to rely on the seller to provide administrative and other support, including financial reporting and internal controls, to the acquired business for a period of time. There can be no assurance that the seller will do so in a manner that is acceptable to us.

If more stringent labor laws become applicable to us or if our employees unionize, our profitability may be adversely affected.

India has stringent labor legislation that protects employee interests, including legislation that sets forth detailed procedures for dispute resolution and employee removal and legislation that imposes financial obligations on employers upon retrenchment. Though we are exempt from some of these labor laws at present under exceptions in some states for providers of IT-enabled services, there can be no assurance that such laws will not become applicable to us in the future. If these labor laws become applicable to our employees, it may become difficult for us to maintain flexible human resource policies and attract and employ the numbers of sufficiently qualified candidates that we need or discharge employees, and our compensation expenses may increase significantly.

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In addition, our employees may in the future form unions. If employees at any of our operations centers become eligible for union membership, we may be required to raise wage levels or grant other benefits that could result in an increase in our compensation expenses, in which case our profitability may be adversely affected.

Employee wage increases may prevent us from sustaining our competitive advantage and may reduce our profit margin.

Our most significant costs are the salaries and related benefits of our operations staff and other employees. For example, wage costs in India have historically been significantly lower than wage costs in the United States and Europe for comparably skilled professionals, which has been one of our competitive advantages. However, because of rapid economic growth in India, increased demand for BPO services from India and increased competition for skilled employees in India, wages for comparably skilled employees in India are increasing at a faster rate than in the United States and Europe, which may reduce this competitive advantage. We may need to increase the levels of employee compensation more rapidly than in the past to remain competitive in attracting and retaining the quality and number of employees that our business requires. Wages are generally higher for employees performing decision analytics services and risk and financial management services than for employees performing BPO services. As the scale of our decision analytics services and our risk and financial management services increases, wages as a percentage of revenues will likely increase. To the extent that we are not able to control or share wage increases with our clients, wage increases may reduce our margins. We will attempt to control such costs by our efforts to add capacity in locations where we consider wage levels of skilled personnel to be satisfactory, but we may not be successful in doing so. Additionally, because a majority of our employees are based in India and paid in Indian rupees, while our revenues are primarily in U.S. dollars and U.K. pounds sterling, our employee costs as a percentage of revenues may increase or decrease significantly if the exchange rates among the Indian rupee, the U.K. pound sterling and the U.S. dollar fluctuate significantly.

We face significant competition from U.S.-based and non-U.S.-based outsourcing and information technology companies and from our clients, who may perform outsourcing services themselves, either in-house, in the United States or through offshore groups or other arrangements.

The market for outsourcing services is highly competitive, and we expect competition to intensify and increase from a number of sources. We believe that the principal competitive factors in our markets are breadth and depth of process expertise, service quality, the ability to attract, train and retain qualified people, compliance rigor, global delivery capabilities, price, knowledge of industries served and marketing and sales capabilities. We also face competition from non-U.S.-based outsourcing and IT companies (including those in the United Kingdom and India) and U.S.-based outsourcing and IT companies. In addition, the trend toward offshore outsourcing, international expansion by foreign and domestic competitors and continuing technological changes will result in new and different competitors entering our markets. These competitors may include entrants from the communications, software and data networking industries or entrants in geographic locations with lower costs than those in which we operate. Some of these existing and future competitors have greater financial, personnel and other resources, a broader range of service offerings, greater technological expertise, more recognizable brand names and more established relationships in industries that we currently serve or may serve in the future. In addition, some of our competitors may enter into strategic or commercial relationships among themselves or with larger, more established companies in order to increase their ability to address client needs, or enter into similar arrangements with potential clients. The trend in multi-vendor relationships has been growing, which could reduce our revenues to the extent that clients obtain services from other vendors. Increased competition, our inability to compete successfully against competitors, pricing pressures or loss of market share could result in reduced operating margins, which could harm our business, results of operations, financial condition and cash flows.

We expect competition to intensify in the future as more companies enter our markets. Increased competition may result in lower prices and volumes, higher costs for resources, especially people, and lower profitability. We may not be able to supply clients with services that they deem superior and at competitive prices and we may lose business to our competitors. Any inability to compete effectively would adversely affect our business, results of operations and financial condition.

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We may disrupt our clients' operations as a result of inadequate service or other factors, including telecommunications or technology downtime or interruptions.

The services we provide are often critical to our clients' businesses, and any failure to provide those services could result in a reduction in revenues or a claim for substantial damages against us, regardless of whether we are responsible for that failure. Most of our agreements with clients contain service level and performance requirements, including requirements relating to the quality of our services. Failure to consistently meet service requirements of a client or errors made by our employees in the course of delivering services to our clients could disrupt the client's business and result in a reduction in revenues or a claim for damages against us. Additionally, we could incur liability if a process we manage for a client were to result in internal control failures or impair our client's ability to comply with its own internal control requirements. Under a majority of our agreements with our clients, our liability for breach of certain of our obligations is generally limited to actual damages suffered by the client and is typically capped at the greater of an agreed amount or the fees paid or payable to us for a period of time under the relevant agreement. These limitations and caps on liability may be unenforceable or otherwise may not protect us from liability for damages. In addition, certain liabilities, such as claims of third parties for which we may be required to indemnify our clients or liability for breaches of confidentiality, are generally not limited under those agreements. Our agreements are governed by laws of multiple jurisdictions, therefore the interpretation of such provisions, and the availability of defenses to us, may vary, which may contribute to the uncertainty as to the scope of our potential liability.

Our dependence on our offshore operations centers requires us to maintain active voice and data communications among our operations centers in India and the Philippines, our international technology hubs in the United States and our clients' offices. Although we maintain redundant facilities and communications links, disruptions could result from, among other things, technical breakdowns, computer glitches and viruses and weather conditions. We also depend on certain significant vendors for facility storage and related maintenance of our main technology equipment and data at those technology hubs. Any failure by these vendors to perform those services, any temporary or permanent loss of our equipment or systems, or any disruptions to basic infrastructure like power and telecommunications could impede our ability to provide services to our clients, have a negative impact on our reputation, cause us to lose clients, reduce our revenues and harm our business.

Our business could be materially and adversely affected if we do not protect our intellectual property or if our services are found to infringe on the intellectual property of others.

Our success depends in part on certain methodologies, practices, tools and technical expertise we utilize in designing, developing, implementing and maintaining applications and other proprietary intellectual property rights. In order to protect our rights in these various intellectual properties, we rely upon a combination of nondisclosure and other contractual arrangements as well as trade secret, copyright and trademark laws. We also generally enter into confidentiality agreements with our employees, consultants, clients and potential clients and limit access to and distribution of our proprietary information. We also have submitted United States federal and foreign trademark applications for the names of additional service offerings. We may not be successful in maintaining or obtaining trademarks for these trade names. India is a member of the Berne Convention, an international intellectual property treaty, and has agreed to recognize protections on intellectual property rights conferred under the laws of other foreign countries, including the laws of the United States. There can be no assurance that the laws, rules, regulations and treaties in effect in the United States, India and the other jurisdictions in which we operate and the contractual and other protective measures we take, are adequate to protect us from misappropriation or unauthorized use of our intellectual property, or that such laws will not change. We may not be able to detect unauthorized use and take appropriate steps to enforce our rights, and any such steps may not be successful. Infringement by others of our intellectual property, including the costs of enforcing our intellectual property rights, may have a material adverse effect on our business, results of operations and financial condition.

Although we believe that we are not infringing on the intellectual property rights of others, claims may nonetheless be successfully asserted against us in the future. The costs of defending any such claims could be

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significant, and any successful claim may require us to modify, discontinue or rename any of our services. Any such changes may have a material adverse effect on our business, results of operations and financial condition.

Unauthorized disclosure of sensitive or confidential client and customer data, whether through breach of our computer systems or otherwise, could expose us to protracted and costly litigation and cause us to lose clients.

We are typically required to collect and store sensitive data in connection with our services, including names, addresses, social security numbers, credit card account numbers, checking and savings account numbers and payment history records, such as account closures and returned checks. In addition, many of our agreements with our clients do not include any limitation on our liability to them with respect to breaches of our obligation to keep the information we receive from them confidential. We take precautions to protect confidential client and customer data. However, if any person, including any of our employees, penetrates our network security or otherwise mismanages or misappropriates sensitive data, we could be subject to significant liability and lawsuits from our clients or their own customers for breaching contractual confidentiality provisions or privacy laws. Penetration of the network security of our data centers could have a negative impact on our reputation, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may not be fully insured for all losses we may incur.

Although we attempt to limit and mitigate our liability for damages arising from negligent acts, errors or omissions through contractual provisions, limitations of liability set forth in our contracts may not be enforceable in all instances or may not otherwise protect us from liability for damages. In addition, certain liabilities, such as claims of third parties for which we may be required to indemnify our clients, are generally not limited under those agreements. Although we have general liability insurance coverage, including coverage for errors or omissions, property damage or loss and breaches of privacy and network security, that coverage may not continue to be available on reasonable terms or to be available in sufficient amounts to cover one or more large claims, and our insurers may disclaim coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or changes in our insurance policies (including premium increases or the imposition of large deductible or co-insurance requirements), could have a material adverse effect on our business, reputation, results of operations, financial condition and cash flows.

Oak Hill Capital Partners and its affiliates, Vikram Talwar and Rohit Kapoor exercise significant influence over us, and their interests in our business may be different than yours.

A majority of the issued and outstanding shares of our common stock are currently beneficially owned by Oak Hill Capital Partners L.P. and certain of its affiliates, our Executive Chairman, Vikram Talwar, and our President and Chief Executive Officer, Rohit Kapoor. As of December 31, 2009, Oak Hill Capital Partners L.P. and certain of its affiliates beneficially owned 10,542,504 shares (or 36.2%) of our outstanding common stock; Mr. Talwar and certain trusts for his benefit and that of his family collectively beneficially owned 1,658,079 shares (or 5.7%) of our outstanding common stock; and Mr. Kapoor and certain trusts for his benefit and that of his family collectively beneficially owned 1,790,935 shares (6.2%) of our outstanding common stock. Accordingly, each of these parties can exercise significant influence over our business policies and affairs and all matters requiring a stockholders' vote, including the composition of our board of directors, the adoption of amendments to our certificate of incorporation and the approval of mergers or sales of substantially all of our assets. This concentration of ownership also may delay, defer or even prevent a change in control of our company and may make some transactions more difficult or impossible without the support of these stockholders. The interests of these stockholders may conflict with your interests.

We may not succeed in identifying suitable acquisition candidates or integrating an acquired business into our operations, which could have a material adverse effect on our business, results of operations and financial condition.

One of our strategies is to broaden our geographic presence, gain new clients, enter new streams of services and expand capacity both organically and through strategic acquisitions. We may not, however, succeed in

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identifying suitable acquisition candidates available for sale at reasonable prices, have access to the capital required to finance potential acquisitions or be able to consummate any acquisition. Our management may not be able to successfully integrate any acquired business into our operations or maintain our standards, controls and policies, and any acquisition we do complete may not result in long-term benefits to us. Acquisitions involve a number of risks, including diversion of management's attention, ability to finance the acquisition on attractive terms, failure to retain key personnel, legal liabilities and the need to amortize acquired intangible assets, any of which could have a material adverse effect on our business, results of operations, financial condition and cash flows. Future acquisitions may also result in the incurrence of indebtedness or the issuance of additional equity securities.

We may choose to expand operations to additional countries and may not be successful in maintaining our current profit margins in our new locations due to factors beyond our control.

We are currently continuing to evaluate additional locations other than India, the Philippines, the Czech Republic and Romania in which to invest in an operations center. We cannot predict the extent of government support, availability of qualified workers, or monetary and economic conditions in other countries. Although some of these factors will influence our decision to establish operations in another country, there are inherent risks beyond our control, including exposure to currency fluctuations, political uncertainties, foreign exchange restrictions and foreign regulatory restrictions. One or more of these factors or other factors relating to expanded international operations could result in increased operating expenses and make it more difficult for us to manage our costs and operations, which could harm our business and negatively impact our operating results.

We may increase the range of services that we provide to our clients and our business and future prospects are difficult to evaluate.

We are exploring opportunities to provide outsourced services that we have not provided to date. Should we decide to expand our service offerings, our results of operations may be negatively affected during any transition or growth period before such offerings achieve profitability. For example, we may need to expand our training of our existing employees or recruit new, specially-trained employees to provide these services, which could increase our costs of revenues disproportionately to the revenues generated by such services. Other challenges we may face include attracting and retaining clients for such services, integrating any new services into our current suite of services and managing any resulting growth in our operations.

Failure to adhere to the regulations that govern our business could have an adverse impact on our operations.

Our clients are often subject to regulations that may require that we comply with certain rules and regulations in performing services for them that would not otherwise apply to us. Debt collection services, for example, may be subject to the Fair Debt Collection Practices Act, which regulates debt collection practices. In addition, many U.S. states require a debt collector to apply for, be granted and maintain a license to engage in debt collection activities in a state. We are currently licensed (or exempt from licensing requirements) to provide debt collection services in the United States from India in all but two U.S. states and from the Philippines in 35 U.S. states that have non-exempt requirements and have separate conditional exemptions with respect to our ongoing collection obligations. Other U.S. federal laws and regulations that apply to certain portions of our business include the Fair Credit Reporting Act, the Gramm-Leach-Bliley Act, the Health Insurance Portability and Accountability Act of 1996, the Truth in Lending Act, the Fair Credit Billing Act and the FDIC rules and regulations. If we do not maintain our licenses or other qualifications to provide our services, we may not be able to provide services to existing customers or be able to attract new clients and could lose revenues, which could have a material adverse effect on our business. Our agreements with some of our clients require us to remain knowledgeable about and comply with a number of relevant consumer protection laws. Failure to perform our services in a manner that complies with any such requirement could result in breaches of contracts with our clients. Our failure to comply with any applicable laws and regulations could subject us to civil fines and criminal penalties.

Risks Related to the International Nature of our Business

Our financial condition could be negatively affected if foreign governments reduce or withdraw tax benefits and other incentives currently provided to companies within our industry, or if the same are not available for other reasons.

Under the Income-Tax Act, 1961 of India, we have benefited from a holiday from Indian corporate income taxes. As a result, our service operations have to date been subject to relatively lower tax liabilities. We incurred minimal income tax expense in 2009 as a result of the tax holiday, compared to approximately \$3.1 million that we would have additionally incurred if the tax holiday had not been available for that period (without accounting for double taxation treaty set-offs). Our current tax holiday in respect of some of our operations centers expires in March 2010. Consequently, our tax expense will materially increase and our after-tax profitability will be materially reduced.

In May 2007, the Government of India adopted the Indian Finance Act, 2007, with effect from April 1, 2007, that imposed a minimum alternative tax, or MAT, on Indian companies that have book profits but no tax profit which could be for various reasons, including tax holidays, tax deductions or significant depreciation. Any MAT paid by us can be carried forward for a maximum period of ten years and can be used as a credit against corporate income taxes payable by us after expiration of the tax holiday, subject to the satisfaction of certain conditions.

We currently benefit from a four-year income tax holiday in the Philippines that is extendable for an additional two years. Our current income tax holidays in the Philippines are expected to expire in the middle of 2012, unless extended. While we intend to apply for extensions of these holidays, it is possible that such extensions could be denied, or these holidays could be removed entirely due to changes in the government of the Philippines. Should either of these events occur, our Philippine tax liability could increase.

We may be required to pay additional taxes in connection with audits by the Indian taxing authorities.

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. The tax authorities have jurisdiction to review this arrangement and in the event that they 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 for past years aggregating to approximately \$13.0 million. The Company has already deposited \$7.8 million against the amounts demanded.

Entity	Tax Year	Issue	Amount Demanded	Amount Deposited
Exl India	2003-04	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. in the 2003-04 tax year was not appropriate and also disallows certain expenses claimed as tax deductible by EXL India.	\$ 2.1 million	\$ 2.1 million
Exl India	2004-05	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. for the 2004-05 tax year was not appropriate and also disallows certain expenses claimed as tax deductible by EXL India.	\$ 2.0 million	\$ 2.0 million
Exl India	2005-06	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. for the 2005-06 tax year was not appropriate and also disallows certain expenses claimed as tax deductible by EXL India.	\$ 5.2 million	\$ 1.6 million
Exl Inc.	2003-04	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$ 3.2 million	\$ 1.7 million
Exl Inc.	2004-05	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$ 0.1 million	\$ —
Exl Inc.	2005-06	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$ 0.7 million	\$ 0.4 million

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Based on advice from our Indian tax advisors, the facts underlying our position and our experience with these types of assessments, we continue to believe that the probability of loss is remote and have not accrued any amount with respect to these matters in our consolidated financial statements. Any amount paid by us as deposits will be refunded to us with interest if we succeed in our appeals with the appropriate tax authorities. We cannot assure you that our appeals will be successful or that these appeals will be finally resolved in the near future. Please see note 16 to our consolidated financial statements for details.

Introduction of tax legislation and disputes with tax authorities may have an adverse effect on our operations and our overall tax rate.

Governments in countries in which we operate or provide services could enact new tax legislation which would have a material adverse effect on our business, results of operations and financial condition. In addition, our ability to repatriate surplus earnings from our operations centers in a tax-efficient manner is dependent upon interpretations of local laws, possible changes in such laws and the renegotiation of existing double tax avoidance treaties. Changes to any of these may adversely affect our overall tax rate, which would have a material adverse effect on our business, results of operations and financial condition. Additionally, if a tax authority in any jurisdiction reviews any of our tax returns and determines that the transfer prices and terms we have applied are not appropriate, or that other income of our affiliates should be taxed in that jurisdiction, we may incur increased tax liability, including accrued interest and penalties, which would cause our tax expense to increase, possibly materially, thereby reducing our profitability and cash flows.

Currency fluctuations among the Indian rupee, the U.K. pound sterling, the Philippine peso and the U.S. dollar could have a material adverse effect on our results of operations.

Although a substantial portion of our revenues are denominated in U.K. pounds sterling (33.9% in 2009) or U.S. dollars (63.8% in 2009), most of our expenses (57.1% in 2009) are incurred and paid in Indian rupees. We report our financial results in U.S. dollars. The exchange rates among the Indian rupee, the U.K. pound sterling, the Philippine peso and the U.S. dollar have changed substantially in recent years and may fluctuate substantially in the future. The average Indian rupee/U.S. dollar exchange rate in 2009 was approximately 48.41 (based on the Bloomberg Composite Rate (BCR)), representing depreciation of the Indian rupee of 11.57% compared to the average exchange rate in 2008. The average Indian rupee/U.K. pound sterling exchange rate in 2009 was approximately 75.69 (based on the BCR), representing appreciation of the Indian rupee of 5.5% compared to the average exchange rate in 2008. The average U.S. dollar/U.K. pound sterling exchange rate in 2009 was approximately 1.56 (based on BCR) representing appreciation of the U.S. dollar of 15.7% compared to the average exchange rate in 2008. The average Philippine peso/U.S. dollar exchange rate in 2009 was approximately 47.57 (based on the BCR), representing depreciation of the Philippine peso of 6.8% compared to the average exchange rate in 2008. Although we take steps to hedge a substantial portion of our Indian rupee/U.S. dollar foreign currency exposures, our results of operations may be adversely affected if the Indian rupee fluctuates significantly against the U.K. pound sterling or the U.S. dollar, the U.K. pound sterling further depreciates against the U.S. dollar, our hedging strategy is unsuccessful or if the hedging markets have insufficient liquidity or depth to allow us to implement our hedging strategy in a cost-effective manner. Any failure by our hedging counterparties to meet their contractual obligations there under could materially and adversely effect our profitability. We are subject to legal restrictions on hedging activities as well as the convertibility of currencies in India. This could limit our ability to use cash generated in one country in another country and could limit our ability to hedge our exposures. Finally, our hedging policies only provide near term protection from exchange rate fluctuations.

Terrorist attacks and other acts of violence involving India, the Philippines, the United States or other countries could adversely affect the financial markets, result in a loss of client confidence and adversely affect our business, results of operations and financial condition.

Terrorist attacks and other acts of violence or war, including those involving India, the Philippines, the United States or other countries, may adversely affect worldwide financial markets and could potentially lead to

economic recession, which could adversely affect our business, results of operations and financial condition. These events could adversely affect our clients' levels of business activity and precipitate sudden significant changes in regional and global economic conditions and cycles. These events also pose significant risks to our people and to our operations centers. South Asia has, from time to time, experienced instances of civil unrest and hostilities among neighboring countries, including India, Pakistan and China. In recent years there have been several instances of military confrontations along the Indo-Pakistan border. There continues to be potential for hostilities between India and Pakistan due to recent terrorist activities and the geopolitical climate along the border. Although this has not been the case to date, such political tensions could create a perception that there is a risk of disruption of services provided by India-based companies, which could have a material adverse effect on the market for our services. Furthermore, if India were to become engaged in armed hostilities, particularly hostilities that were protracted or involved the threat or use of nuclear weapons, we might not be able to continue to operate. Our insurance policies may not insure us against losses and interruptions caused by terrorist attacks and other acts of violence or war.

We may face difficulties as we expand our operations into countries in which we have no prior operating experience.

We intend to continue to expand our global footprint in order to maintain an appropriate cost structure and meet our clients' delivery needs. This may involve expanding into countries other than those in which we currently operate. It may involve expanding into less developed countries, which may have less political, social or economic stability and less developed infrastructure and legal systems. As we expand our business into new countries we may encounter regulatory, personnel, technological and other difficulties that increase our expenses or delay our ability to start up our operations or become profitable in such countries. This may affect our relationships with our clients and could have an adverse effect on our business, results of operations and financial condition.

A substantial portion of our assets and operations are located in India, and we are subject to regulatory, economic and political uncertainties in India.

Our principal operating subsidiaries are incorporated in India, and a majority of our assets and our professionals are located in India. We intend to continue to develop and expand our offshore facilities in India. In the early 1990s, India experienced significant inflation, low growth in gross domestic product and shortages of foreign currency reserves. The Indian government, however, has exercised and continues to exercise significant influence over many aspects of the Indian economy. India's government has provided significant tax incentives and relaxed certain regulatory restrictions in order to encourage foreign investment in specified sectors of the economy, including the BPO industry. Certain of those programs, which have benefited us, include tax holidays, liberalized import and export duties and preferential rules on foreign investment and repatriation. We cannot assure you that liberalization policies will continue. Various factors, such as changes in the current federal government, could trigger significant changes in India's economic liberalization and deregulation policies and disrupt business and economic conditions in India generally and our business in particular.

In addition, the Government of India is considering introducing a reservation policy to the private sector in India, pursuant to which all private sector companies operating in India, including our subsidiaries, would be required to reserve a certain percentage of jobs for the economically underprivileged population in the states where such companies are incorporated. If this policy is adopted, our ability to hire employees of our choice may be affected due to restrictions on our pool of potential employees and competition for these professionals.

The choice of India as an outsourcing destination and our financial performance may be adversely affected by general economic conditions and economic and fiscal policy in India, including changes in exchange rates and controls, interest rates and taxation policies, as well as social stability and political, economic or diplomatic developments affecting India in the future. In particular, India has experienced significant economic growth over the last several years, but faces major challenges in sustaining that growth in the years

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ahead. These challenges include the need for substantial infrastructure development and improving access to healthcare and education. Our ability to recruit, train and retain qualified employees, develop and operate our operations centers, and attract and retain clients could be adversely affected if India does not successfully meet these challenges.

The Philippines periodically experiences political or economic instability, which could disrupt our operations, increase our costs and harm our business.

The Philippines continues to experience low growth in its gross domestic product, significant inflation and shortages of foreign exchange. We are exposed to the risk of rental and other cost increases due to inflation in the Philippines, which has historically been at a much higher rate than in the United States. These conditions could create political or economic instability that could harm businesses operating in the Philippines.

In addition, the Philippines has and may continue to experience political instability, including strikes, demonstrations, protests, marches, coups d'état, guerilla activity or other types of civil disorder. These instabilities and any adverse changes in the political environment in the Philippines could increase our operational costs, increase our exposure to legal and business risks and make it more difficult for us to operate our business in the Philippines.

Restrictions on entry visas may affect our ability to compete for and provide services to clients in the United States, which could have a material adverse effect on future revenues.

The vast majority of our employees are Indian nationals. The ability of some of our executives and employees to work with and meet our U.S. and European clients and our clients from other countries depends on their ability to obtain the necessary visas and entry permits. In response to terrorist attacks, the global economic downturn and public sentiments about the high unemployment rates in their respective economies, U.S. and European immigration authorities have increased the level of scrutiny in granting visas. Immigration laws in those countries may also require us to meet certain levels of compensation and comply with other legal requirements as a condition to obtaining or maintaining entry visas. These restrictions have significantly lengthened the time requirements to obtain visas for our personnel, which has in the past resulted, and may continue to result, in delays in the ability of our personnel to meet with our clients. In addition, immigration laws are subject to legislative change and varying standards of application and enforcement due to political forces, economic conditions or other events, including terrorist attacks. We cannot predict the political or economic events that could affect immigration laws or any restrictive impact those events could have on obtaining or monitoring entry visas for our professionals. If we are unable to obtain the necessary visas for personnel who need to get to our clients' sites, or if the duration of such visas is shortened or if such visas are delayed, we may not be able to provide services to our clients or to continue to provide these services on a timely and cost effective basis, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

An outbreak of an infectious disease or any other serious public health concerns in Asia or elsewhere could have a material adverse effect on our business and results of operations.

The outbreak of an infectious disease in Asia or elsewhere or any other serious public health concerns could have a negative impact on the economies, financial markets and business activities in the countries in which our end markets are located, which could have a material adverse effect on our business. Past outbreaks of Severe Acute Respiratory Syndrome, avian influenza, or bird flu, or H1N1 across Asia and Europe have adversely affected a number of countries and companies. Although we have not been adversely impacted by these recent outbreaks, we can give no assurance that a future outbreak of an infectious disease among humans or animals or any other serious public health concerns will not have a material adverse effect on our business.

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We are vulnerable to natural disasters that could severely disrupt the normal operation of our business and adversely affect our business, results of operation and financial condition.

India is susceptible to natural disasters, including typhoons, tsunamis, floods and earthquakes. The Philippines is additionally susceptible to volcanic eruptions. Substantially all of our operations centers and employees are located in India and the Philippines. If our operations centers are damaged by a typhoon, tsunami, flood, earthquake, volcanic eruption or other natural disaster, our operations and our ability to provide services to our clients could be interrupted or delayed significantly. Our insurance coverage may not be sufficient to cover all of our potential losses. In addition, although all of our operations centers have access to other power sources, disaster management facilities in India may not be adequate to protect against potential losses. In addition, clients may terminate their contracts with us if we cannot resume providing services quickly enough. As a result, a natural disaster in India or the Philippines could have a material adverse effect on our business, results of operation and financial condition.

If more stringent labor laws or other industry standards in India become applicable to us, our profitability may be adversely affected.

India has stringent labor legislation that protects the interests of workers, including legislation that sets forth detailed procedures for dispute resolution and employee removal and legislation that imposes financial obligations on employers upon retrenchment. In addition, we are subject to certain industry standards regarding our employees, particularly with regard to overtime and transportation of employees. Our employees may also in the future form unions. If these labor laws or industry standards become more stringent or are more strictly enforced, or if our employees unionize, it may become difficult for us to maintain flexible human resource policies, discharge employees or downsize, any of which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

The Government of India has recently focused on the occupational health and safety concerns experienced by workers in the outsourcing industry. The introduction of legislation imposing restrictions on working hours or conditions of professionals in the outsourcing industry could have an adverse effect on our business, results of operations and financial condition.

Investors may have difficulty effecting service of process or enforcing judgments obtained in the United States against our subsidiaries in India or our executive officers.

Our primary operating subsidiaries are organized outside the United States and a number of our executive officers reside outside of the United States. Most of our assets are located in India. As a result, you may be unable to effect service of process upon our affiliates who reside in India outside their jurisdiction of residence. In addition, you may be unable to enforce against these persons outside the jurisdiction of their residence judgments obtained in courts of the United States, including judgments predicated solely upon the federal securities laws of the United States.

Sections 44A and Section 13 of the Indian Civil Procedure Code, 1908, or the Civil Code, govern recognition and enforcement of foreign judgments. Section 44A of the Civil Code provides for recognition and enforcement of a foreign judgment without having to file an original suit in India, provided such judgments have been rendered by courts in a country or territory outside India which the Government of India has declared to be a reciprocating territory. We have been advised by our Indian counsel that the United States and India do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than certain arbitration awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not it is predicated upon the federal securities laws of the United States, would not be enforceable in India as such.

However, if the party in whose favor such final judgment is rendered brings a new suit in a competent court in India based on a final judgment that has been obtained in the United States, Section 13 of the Civil Code provides that the foreign judgment will be conclusive as to certain matters. The suit must be brought in India within three years of the date of the foreign judgment. It is unlikely, however, that a court in India would award damages on the same basis as a court in the United States if an action is brought in India. It is also unlikely that an Indian court would enforce judgments obtained in the United States if it viewed the amount of damages awarded as excessive or inconsistent with Indian practice.

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ITEM 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

Our corporate headquarters is located in New York, New York. We operate twelve operations centers in India, Philippines, the Czech Republic and the U.S., with a current installed capacity of approximately 7,554 agent workstations that operate on an uninterrupted 24/7 basis and are available to be staffed on a three-shift basis. Our networking and telecommunication hubs are located in Sunnyvale, California and in New York, New York. Out of our ten operations centers in India, we own an area representing 86,361 sq. ft. and containing 1,141 agent workstations in our operations center in Pune, India. We lease all of our other properties. The following table describes each of our material properties and lease expiration dates as of December 31, 2009. We do not have the option under our present lease agreements for these properties to buy the properties should we desire to do so.

<u>Facility</u>	<u>Location</u>	<u>Space</u>	<u>No. of Agent Workstations</u>	<u>Lease Expiration</u>
Corporate Headquarters	New York, New York	8,650 sq. ft.	N/A	May 30, 2019
U.S. Operations and Administration	Jersey City, New Jersey	20,469 sq. ft.	N/A	February 28, 2014
Operations Center I	Noida, India	50,750 sq. ft.	658	March 14, 2015 (option to extend until 2020)
Operations Center II	Noida, India	39,700 sq. ft.	485	May 17, 2013
Operations Center III	Noida, India	68,800 sq. ft.	591	May 7, 2011
Operations Center IV-A	Pune, India	86,361 sq. ft.	1,141	Owned
Operations Center V	Noida, India	105,000 sq. ft.	949	August 29, 2010 (option to extend until 2023)
Operations Center VI	Noida, India	100,000 sq. ft.	1083	November 30, 2011 (option to extend until 2024)
Operations Center VII	Gurgaon, India	20,628 sq. ft.	197	July 19, 2011 (option to extend until 2014)
Operations Center VIII	Gurgaon, India	47,874 sq. ft.	576	October 31, 2011
Operations Center IX	Pasay City, Philippines	92,300 sq. ft.	900	May 13, 2018 (option to extend until 2028)
Operations Center X	Noida, India	23,824 sq. ft.	307	October 31, 2013 (option to exit commencing November 30, 2009)
Operations Center XI	Pune, India	44,355 sq. ft.	500	October 31, 2013
Operations Center XII	Olomouc, Czech Republic	20,000 sq. ft.	167	June 30, 2011 (automatic renewal every year until June 30, 2018)

All of our operations centers are equipped with fiber connectivity and have access to other power sources.

The Company is currently in the process of setting up new operations centers in Cluj, Romania (which center will have approximately 11,000 sq. ft. of space), Noida, India (which center will have approximately 227,000 sq. ft. of space) and Jaipur, India (which center will have approximately 38,700 sq. ft. of space). The new operation centers in Noida and Jaipur are located within special economic zones and will benefit from tax holidays for services provided from such locations.

ITEM 3. Legal Proceedings

In the course of our normal business activities, various lawsuits, claims and proceedings may be instituted or asserted against us. We believe that the disposition of matters instituted or asserted will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. Please see note 16 to our consolidated financial statements for details regarding our tax proceedings.

PART II.**ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock trades on the Nasdaq Global Select Market under the symbol "EXLS."

The following table sets forth for the periods indicated the high and low sales prices for shares of our common stock as reported by the Nasdaq Global Select Market.

Calendar Period	Price Range	
	High	Low
2008		
First Quarter	\$25.67	\$16.43
Second Quarter	\$26.00	\$13.88
Third Quarter	\$17.05	\$7.60
Fourth Quarter	\$9.20	\$4.43
2009		
First Quarter	\$9.49	\$5.86
Second Quarter	\$11.40	\$8.10
Third Quarter	\$14.99	\$9.75
Fourth Quarter	\$18.39	\$13.43

As of February 26, 2010, there were 29 holders of record of our outstanding common stock.

We have not paid or declared any cash dividends on our common stock. We currently expect to retain all of our earnings for use in developing our business and do not anticipate paying any cash dividends in the foreseeable future. Future cash dividends, if any, will be paid at the discretion of our board of directors and will depend, among other things, upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as our board of directors may deem relevant.

Issuer Purchases of Equity Securities

During the three months ended December 31, 2009, the Company did not acquire any shares of common stock from employees in connection with withholding tax payments related to the vesting of restricted stock. During the year ended December 31, 2009, the Company acquired 4,329 shares of common stock from employees in connection with withholding tax payments related to the vesting of restricted stock for a total consideration of \$39. The purchase price of \$9.08 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 December 31, 2009, the Company did not purchase any shares of its common stock as part of its previously announced share repurchase program. During the year ended December 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. These shares were purchased 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.

Equity Compensation Plan Information

The following table provides information as of December 31, 2009 with respect to the shares of our common stock that may be issued under our existing equity compensation plans. We have the following equity

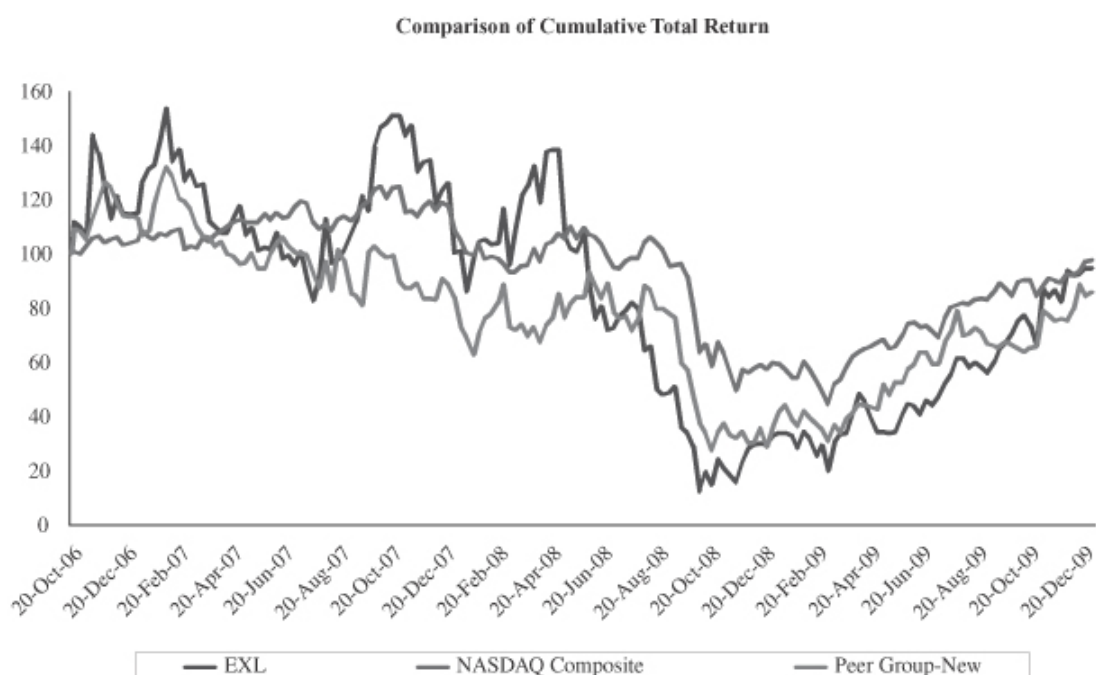
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compensation plans, each of which has been approved by our stockholders: (1) our 2003 Stock Option Plan, (2) our 2003 India Stock Employee Option Plan and (3) our 2006 Omnibus Award Plan (including two India sub plans thereunder). For a description of each of our equity compensation plans, please see note 13 to our consolidated financial statements.

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise/Vesting of Outstanding Equity Awards</u>	<u>Weighted Average Exercise Price of Outstanding Options</u>	<u>Number of Securities Available for Future Issuance Under Equity Compensation Plans</u>
Equity compensation plans that have been approved by security holders	3,595,876	\$ 11.52	4,211,273
Equity compensation plans not approved by security holders	—	—	—
Total	3,595,876	\$ 11.52	4,211,273

Performance Graph

The following graph compares the cumulative total stockholder return on our common stock with the cumulative total return of the Nasdaq 100 Index (capitalization weighted), our peer group of companies for the period beginning October 20, 2006. Our peer group of companies is comprised of two companies that we believe are our closest reporting issuer competitors: WNS and Genpact. The returns of the component entities of our peer group index are weighted according to the market capitalization of each entity as of the beginning of each period for which a return is presented. The stock performance shown on the graph below is not indicative of future price performance.



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ITEM 6. Selected Financial Data

The following table sets forth our selected consolidated historical financial data as of the dates and for the periods indicated. Our selected consolidated financial data set forth below as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009 has been derived from our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. Our selected consolidated financial data set forth below as of December 31, 2007, 2006 and 2005 and for each of the years ended December 31, 2006 and 2005 are derived from our audited financial statements, which are not included in this Annual Report on Form 10-K. Our selected consolidated financial information for 2009, 2008 and 2007 should be read in conjunction with our consolidated financial statements and the notes thereto and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” which are included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2009	2008	2007	2006	2005 (Unaudited)
(in millions, except share and per share data)					
Consolidated Statement of Operations Data:					
Total revenues(1)	\$ 191.0	\$ 181.7	\$ 152.0	\$ 98.7	\$ 54.2
Cost of revenues (exclusive of depreciation and amortization)(2)	109.4	112.4	100.1	62.6	38.1
Gross profit	81.6	69.3	51.9	36.1	16.1
Selling, general and administrative expenses(3)	45.8	42.4	37.9	23.4	14.2
Depreciation and amortization expenses(4)	11.4	11.2	9.2	7.1	4.0
Income/(loss) from continuing operations	24.4	15.7	4.8	5.6	(2.1)
Total other income (expense)	(4.9)	(5.9)	11.8	0.8	0.4
Income/(loss) from continuing operations before income taxes	19.5	9.8	16.6	6.4	(1.7)
Income tax provision/(benefit)	3.7	(1.3)	(1.0)	(0.3)	3.0
Income from continuing operations	15.8	11.1	17.6	6.7	1.3
Income/(loss) from discontinued operations, net of taxes	(0.1)	3.3	9.4	7.3	5.7
Net income	15.7	14.4	27.0	14.0	7.0
Dividend and accretion to preferred stock	—	—	—	(0.6)	(0.2)
Net income to common stockholders	<u>\$ 15.7</u>	<u>\$ 14.4</u>	<u>\$ 27.0</u>	<u>\$ 13.4</u>	<u>\$ 6.8</u>
Earnings per share:					
Basic:					
Continuing operations	\$ 0.55	\$ 0.39	\$ 0.62	\$ 0.27	\$ 0.05
Discontinued operations	\$ —	\$ 0.11	\$ 0.33	\$ 0.32	\$ 0.27
Diluted:					
Continuing operations	\$ 0.54	\$ 0.38	\$ 0.60	\$ 0.26	\$ 0.05
Discontinued operations	\$ —	\$ 0.11	\$ 0.32	\$ 0.32	\$ 0.27
Weighted average number of common shares outstanding					
Basic	28,963,770	28,811,040	28,480,033	22,863,539	21,174,548
Diluted	29,417,910	29,212,045	29,191,199	23,033,266	21,591,028

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	At December 31,				
	2009	2008	2007 (in millions)	2006 (Unaudited)	2005 (Unaudited)
Consolidated Statement of Financial Position Data:					
Cash and cash equivalents	\$ 132.2	\$ 112.2	\$ 101.4	\$ 84.7	\$ 23.9
Working capital(5)	143.2	118.8	119.6	85.0	24.0
Total assets	249.6	212.0	218.4	169.2	63.6
Other long term obligations(6)	5.6	0.2	0.3	0.2	5.8
Preferred stock (liquidation preference)	—	—	—	—	6.2
Stockholders' equity	205.7	171.3	174.0	127.2	30.9

- (1) Revenues include reimbursable expenses of \$9.6 million in 2009, \$11.8 million in 2008, \$7.1 million in 2007, \$4.4 million in 2006 and \$2.7 million in 2005. Revenues also include contract-termination fee of \$5.1 million in 2009 and \$0.4 million in 2008.
- (2) Cost of revenues for the years ended December 31, 2009, 2008, 2007, 2006 and 2005 include \$1.4 million, \$1.1 million, \$1.1 million, \$0.5 million and \$0, 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.
- (3) SG&A expenses for the years ended December 31, 2009, 2008, 2007, 2006 and 2005 include \$5.7 million, \$4.2 million, \$3.2 million, \$1.5 million and \$0.1 million respectively, as non-cash amortization of stock compensation expense relating to the issuance of equity awards to our non-operations staff.
- (4) Depreciation and amortization for the years ended December 31, 2009, 2008, 2007, 2006 and 2005 includes \$0.2 million, \$0.5 million, \$1.6 million, \$1.2 million and \$0, respectively, as amortization of intangibles.
- (5) Working capital means total current assets minus total current liabilities.
- (6) Other long-term obligations include senior long-term debt, "ASC No. 740-10" reserves and capital leases.

ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in connection with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. Some of the statements in the following discussion are forward looking statements. See “—Forward looking statements.”

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 principally 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 services 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, banking and financial services and transportation and logistics sectors.

We market our services directly through our sales and marketing and strategic account management teams, which operate out of the United States and the United Kingdom, and our business development team, which operates out of Noida, India. We currently operate ten operations centers in India, one operations center in the Philippines and one operations center in the Czech Republic. We are also in the process of establishing new operations centers in Cluj, Romania and Noida and Jaipur, India.

On July 3, 2009, we acquired a 100% stake in Schneider S.R.O. which is located in the Czech Republic and which provides complex transaction processing services to its clients in Europe and the U.S. The acquisition provided us with multi-lingual delivery capabilities and a cost-effective delivery location in Eastern Europe.

On November 4, 2009, we entered into an asset purchase agreement with American Express pursuant to which we acquired the operations of the American Express Global Travel Service Center, a business unit of American Express located in Gurgaon, India, that provides the travel-related business process outsourcing services of American Express. American Express is an existing client of the Company. The purchase price of the transaction is approximately \$29 million, subject to certain post-closing adjustments. The transaction closed on March 1, 2010.

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.

Revenues

We generate revenues principally from contracts to provide outsourcing and transformation services. For the year ended December 31, 2009, we had total revenues of \$191.0 million compared to total revenues of \$181.7 million in 2008, an increase of \$9.3 million or 5.1%. Revenues from outsourcing services were higher by \$13.8 million in 2009 when compared to 2008, primarily due to volume increases within existing clients of approximately \$12.5 million, receipt of a contract termination fee of \$5.1 million, revenues of \$4.2 million from new clients, including the acquisition of Schneider S.R.O., which increases were partially offset by a \$7.9 million

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reduction due to the appreciation of the U.S. dollar against the U.K. pound sterling. Revenues from transformation services were lower by \$4.5 million in 2009 when compared to 2008, primarily due to lower client discretionary spending arising out of the continuing broad-based weakness in the economy and the effect of appreciation of the U.S. dollar against the U.K. pound sterling.

We anticipate that our revenues will grow as we expand our service offerings and client base, both organically and through acquisitions. We provide our clients with a range of outsourcing services, including insurance services, banking and financial services, utilities support services, 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 significantly affected by variations in business cycles. In addition, our transformation services consist primarily 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 63.8% and 33.9%, respectively, of our total revenues for the year ended December 31, 2009 and approximately 56.4% and 42.8%, respectively, of our total revenues for the year ended December 31, 2008.

In both the United States and the United Kingdom, there has been recent negative publicity and proposed legislation with regard to outsourcing. See "Item 1A. Risk Factors—Risks Related to Our Business—Our industry may not develop in ways that we currently anticipate due to negative public reaction in the United States and elsewhere to offshore outsourcing, recently proposed legislation or otherwise." 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 States or the United Kingdom 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.

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We derive a significant portion of our revenues from a limited number of large clients. In the years ended December 31, 2009 and 2008, our total revenues from our two largest clients were \$64.3 million and \$61.7 million, respectively, accounting for 33.7% and 34.0% of our total revenues, respectively, during these periods.

We provide services to Centrica, which represented \$39.2 million, or 20.5%, of our total revenues for the year ended December 31, 2009 and \$42.4 million, or 23.3% of our total revenues for the year ended December 31, 2008, under an agreement that is scheduled to expire in April 2012. Centrica may terminate the agreement without cause upon three months prior notice and payment of a breakup fee.

We provide services to Travelers, which represented \$25.1 million, or 13.2%, of our total revenues for the year ended December 31, 2009 and \$12.4 million, or 6.8% of our total revenues for the year ended December 31, 2008, under a services agreement. Travelers may terminate the services agreement, or any work assignment or work order thereunder, each of which expires in December 2013, without cause upon 60 days prior notice.

We derived revenues from nineteen and twenty-three new clients for our services, including our transformation services, in the years ended December 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.

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 years ended December 31, 2009 and 2008, 5.0% and 6.5%, 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 and other pricing models. 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 places the focus on operating efficiency 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. We believe that the trend toward multi-vendor relationships will continue. A multi-vendor relationship allows a client to seek more client-friendly pricing and other contract terms from each vendor, which can result in significantly reduced operating margins from the provision of services to such client for each vendor. To the extent our large clients expand their use of multi-vendor relationships and are able to extract more favorable contract terms from other vendors, our operating margins and revenues may be reduced with regard to such clients to the extent we are required to modify the terms of our relationship with such clients.

Expenses

Cost of Revenues

Our cost of revenues primarily consists of:

- employee costs, which include salary, retention and other compensation expenses; recruitment and training costs; non-cash amortization of stock compensation expense; and traveling and lodging costs; and

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- costs relating to our facilities and communications network, which include telecommunication and IT costs; facilities and customer management support; operational expenses for our outsourcing centers; and rent expenses.

The most significant components of our cost of revenues is employee compensation, recruitment, training and retention. Salary levels in India, employee turnover rates and our ability to efficiently manage and utilize our employees significantly affect our cost of revenues. Salary increases are generally awarded each year effective April 1. Accordingly, employee costs are generally lower in the first quarter of each year compared to the rest of the year. We make every effort to manage employee and capacity utilization and continuously monitor service levels and staffing requirements. Although we generally have been able to reallocate our employees as client demand has fluctuated, a contract termination or significant reduction in work assigned to us by a major client could cause us to experience a higher-than-expected number of unassigned employees, which would increase our cost of revenues as a percentage of revenues until we are able to reduce or reallocate our headcount. A significant increase in the turnover rate among our employees in India, particularly among the highly skilled workforce needed to execute outsourcing services, would increase our recruiting and training costs and decrease our operating efficiency, productivity and profit margins. In addition, cost of revenues also includes a non-cash amortization of stock compensation expense relating to our issuance of equity awards to employees directly involved in providing services to our clients.

We expect our cost of revenues to continue to increase as we continue to add professionals in India, the Philippines and the United States to service additional business and as wages continue to increase in India. In particular, we expect training costs to continue to increase as we continue to add staff to service new clients. There is significant competition for professionals with skills necessary to perform the services we offer to our clients. As our existing competitors continue to grow, and as new competitors enter the market, we expect competition for skilled professionals in each of these areas to continue to increase, with corresponding increases in our cost of revenues to reflect increased compensation levels for such professionals. We also expect our cost of revenues to increase due to employee turnover resulting in higher recruitment and training costs. See Item 1A—“Risk Factors—Employee wage increases may prevent us from sustaining our competitive advantage and may reduce our profit margin.”

Cost of revenues is also affected by our long selling cycle and implementation period for our outsourcing services, which require significant commitments of capital, resources and time by both our clients and us. Before committing to use our services, potential clients require us to expend substantial time and resources educating them as to the value of our services and assessing the feasibility of integrating our systems and processes with theirs. In addition, once a client engages us in a new contract, our cost of revenues may represent a higher percentage of revenues until the implementation phase for that contract, generally three to four months, is completed.

We also expect cost of revenues to increase when we add new operations centers due to increases in telecommunication, rent expenses and other facilities operating costs. As we increase the amount of physical infrastructure available to perform our operations, we expect that utilization will decrease and this will have a negative impact on our operating margin.

SG&A Expenses

Our general and administrative expenses are comprised of expenses relating to salaries of senior management and other support personnel, legal and other professional fees, telecommunications, utilities and other miscellaneous administrative costs. Selling and marketing expenses primarily consist of salaries of sales and marketing and strategic account management personnel, client relationship management, travel and brand building. We expect that sales and marketing expenses will continue to increase as we invest in our front-end sales and strategic account management functions to better serve our clients. We also expect our costs to increase as we continue to strengthen our back-end support and enabling functions and invest in leadership development.

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performance management and training programs. SG&A expenses also include non-cash amortization of stock compensation expense related to our issuance of equity awards to senior management, members of our board of directors and advisory board, other support personnel and consultants.

Depreciation and Amortization

Depreciation and amortization pertains to depreciation and amortization of our tangible assets, including network equipment, cabling, computers, office furniture and equipment, motor vehicles and leasehold improvements and intangible assets. Amortization of intangible assets acquired is part of depreciation and amortization. As we add facilities, including our three new operations center in Cluj Romania, Noida, India and Jaipur, India, we expect that depreciation expense will increase, reflecting additional investments in equipment such as desktop computers, servers and other infrastructure.

Foreign Exchange

Exchange Rates

We report our financial results in U.S. dollars and a substantial portion of our total revenues is earned in U.K. pounds sterling. Accordingly, our results of operations are adversely affected if the U.K. pound sterling depreciates against the U.S. dollar. Although substantially all of our revenues are denominated in U.S. dollars or U.K. pounds sterling (63.8% and 33.9%, respectively, for the year ended December 31, 2009 as compared to 56.4% and 42.8%, respectively, for the year ended December 31, 2008), most of our expenses were incurred and paid in Indian rupees and the Philippine peso (57.1% and 6.0%, respectively, in the year ended December 31, 2009 as compared to 62.5% and 2.9%, respectively, in the year ended December 31, 2008). The exchange rates among the Indian rupee, the U.K. pound sterling and the U.S. dollar have changed substantially in recent years and may fluctuate in the future. The results of our operations could be substantially impacted as the Indian rupee appreciates or depreciates against the U.S. dollar or the U.K. pound sterling. See notes 2 and 7 to our consolidated financial statements and Item 7A—"Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk."

Currency Regulation

According to the prevailing foreign exchange regulations in India, an exporter of outsourcing services that is registered with a software technology park or an export processing zone in India, such as our Indian subsidiaries in India, is required to realize its export proceeds within a period of 12 months from the date of exports. Similarly, in the event that such exporter has received any advance against exports in foreign exchange from its overseas customers, it will have to render the requisite services so that the advances so received are earned within a period of 12 months. If those subsidiaries in India did not meet these conditions, they would be required to obtain permission to export foreign currency from the Reserve Bank of India.

Income Taxes

The fiscal year under the Indian Income Tax Act ends on March 31. Certain facilities leased by the Company's Indian subsidiaries qualify for an exemption from corporate tax under section 10A or 10B of the Indian Income Tax Act. This exemption is available for a period of ten consecutive years beginning with the financial year in which the facility begins to manufacture or produce eligible goods and services. During the year ended December 31, 2009, the Indian government effected further amendments to the Indian Income Tax Act and extended the tax holiday for eligible units to March 31, 2011. After the expiration of the tax holiday period for some of the facilities leased by the Company's Indian subsidiaries on April 1, 2010, any profits generated from the services provided from such facilities will be fully taxable. As a result of the expiration of the tax holiday period during 2010, our tax expense will materially increase in and after 2010.

We recognize deferred tax assets and liabilities for temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. We determine if a valuation allowance is required or not on the basis of an assessment of whether it is more likely than not that a deferred tax asset will be realized.

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In May 2007, the Government of India adopted the Indian Finance Act, 2007, that imposed MAT on Indian companies that benefit from a tax holiday with effect from April 1, 2007. Any MAT paid by us can be used as a credit against corporate income taxes payable by us after expiry of the tax holiday for up to ten years, subject to the satisfaction of certain conditions. In accordance with ASC No. 740, a deferred tax asset of \$4.3 million has been recognized as of December 31, 2009.

Exl Philippines, our subsidiary that conducts our operations in the Philippines, enjoys a four year income tax holiday extendable up to six years beginning April 2008, the date of commencement of operations. The income tax holiday is subject to validation by the Philippines Economic Zone Authority based on certain minimum investments. If Exl Philippines does not attain the required investments it will not qualify for the income tax holiday and will be subject to a 5% gross income tax.

The Company is currently in the process of establishing new operations centers in Noida and Jaipur, India. These new operations centers are located within special economic zones and will benefit from tax holidays for services provided from such locations.

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. The tax authorities have jurisdiction to review this arrangement and in the event that they 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 for past years aggregating to approximately \$13.0 million. The Company has already deposited \$7.8 million against the amounts demanded.

Entity	Tax Year	Issue	Amount Demanded	Amount Deposited
Exl India	2003-04	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. in the 2003-04 tax year was not appropriate and also disallows certain expenses claimed as tax deductible by EXL India.	\$ 2.1 million	\$ 2.1 million
Exl India	2004-05	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. for the 2004-05 tax year was not appropriate and also disallows certain expenses claimed as tax deductible by EXL India.	\$ 2.0 million	\$ 2.0 million
Exl India	2005-06	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. for the 2005-06 tax year was not appropriate and also disallows certain expenses claimed as tax deductible by EXL India.	\$ 5.2 million	\$ 1.6 million
Exl Inc.	2003-04	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$ 3.2 million	\$ 1.7 million
Exl Inc.	2004-05	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$ 0.1 million	\$ —
Exl Inc.	2005-06	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$ 0.7 million	\$ 0.4 million

Based on advice from our Indian tax advisors, the facts underlying our position and our experience with these types of assessments, we continue to believe that the probability of loss is remote and have not accrued any amount with respect to these matters in our consolidated financial statements. Any amount paid by us as deposits will be refunded to us with interest if we succeed in our appeals with the appropriate tax authorities. We cannot assure you that our appeals will be successful or that these appeals will be finally resolved in the near future. Please see note 16 to our consolidated financial statements for details. There is a likelihood that we might receive similar orders for other years until the above disputes are resolved. We are subject to U.S. income taxes on the profits we recognize in the United States.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon the financial statements included in this Annual Report on Form 10-K, which have been prepared in accordance with U.S. GAAP. The notes to our consolidated financial statements contain a summary of our significant accounting policies. We consider the policies discussed below to be critical to an understanding of our consolidated financial statements, as their application places the most significant demands on management's judgment regarding matters that are inherently uncertain. These policies include revenue recognition, estimating tax liabilities, stock-based compensation, goodwill, intangibles and long-lived assets, derivative instruments and pension plan liabilities. These accounting policies and the associated risks are set out below. Future events may not develop exactly as forecast, and estimates routinely require adjustment.

Revenue Recognition

The Company derives its revenues from outsourcing and transformation services. Revenues from outsourcing services are recognized primarily on a time-and-material, cost-plus or unit-priced basis; revenues from transformation services are recognized primarily on a time-and-material, fixed price or contingent fee basis. The services provided within our contracts generally contain one unit of accounting. Revenue is recognized under our contracts generally when persuasive evidence of an arrangement exists, the sales price is fixed or determinable and collection of amounts billed is reasonably assured.

Revenue is 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. Revenue is recognized on cost-plus contracts on the basis of contractually agreed direct and indirect costs incurred on a client contract plus an agreed upon profit mark-up. Revenue is 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. Such revenues are recognized as the related services are provided in accordance with the client contract. When the terms of the client contract specify service level parameters that must be met (such as turnaround time or accuracy), we monitor such service level parameters to determine if any service credits or penalties have been incurred. Revenue is recognized net of any service credits that are due to a client. We have experienced minimal service credits and penalties to date.

Revenue is recognized on fixed-price contracts using the proportional performance method. We estimate the proportional performance of a contract by comparing the actual number of hours or days worked to date to the estimated total number of hours or days required to complete each engagement. The use of the proportional performance method requires significant judgment relative to estimating the number of hours or days required to complete the contracted scope of work, including assumptions and estimates relative to the length of time to complete the project and the nature and complexity of the work to be performed. We regularly monitor our estimates for completion of a project and record changes in the period in which a change in an estimate is determined. If a change in an estimate results in a projected loss on a project, such loss is recognized in the period in which it is first identified.

Revenue on contingent fee based contracts is recognized when the related contingency has been met to the client's satisfaction.

The Company accrues for revenue and receivables for services rendered between the last billing date and the balance sheet date. Accordingly, our accounts receivable include amounts for services that we have performed and for which an invoice has not yet been issued to the client. These are included in accounts receivable on our consolidated balance sheet and the amounts are disclosed in the notes to our consolidated financial statements.

Goodwill, intangible assets and long-lived assets

Accounting Standards Codification (ASC) topic 850, "*Business Combinations*" (ASC No. 805), requires that the purchase method of accounting be used for all business combinations. The guidance specifies criteria as

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to intangible assets acquired in a business combination that must be recognized and reported separately from goodwill. In accordance with ASC topic 350, “*Intangibles—Goodwill and Other*” (ASC No. 350), all assets and liabilities of the acquired businesses including goodwill are assigned to reporting units. We evaluate goodwill for impairment at least annually, or as circumstances warrant. When determining the fair value of our reporting units, we utilize various assumptions, including projections of future cash flows. Any adverse changes in key assumptions about our businesses and their prospects or an adverse change in market conditions may cause a change in the estimation of fair value and could result in an impairment charge.

We review long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In general, we will recognize an impairment loss when the sum of undiscounted expected future cash flows is less than the carrying amount of such asset. The estimate of undiscounted cash flows and the fair value of assets require several assumptions and estimates like the weighted average cost of capital, discount rates, risk-free rates, market rate of return and risk premiums and can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. Although we believe the historical assumptions and estimates we have made are reasonable and appropriate, different assumptions and estimates could materially impact our reported financial results.

Stock-based Compensation

Under the fair value recognition provisions of ASC topic 718, “*Compensation—Stock Compensation*” (ASC No. 718), cost is measured at the grant date, based on the fair value of the award and is amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting periods. Determining the fair value of stock-based awards at the grant date requires significant judgment, including estimating the expected term over which the stock awards will be outstanding before they are exercised, the expected volatility of our stock and the number of stock-based awards that are expected to be forfeited. In order to determine the estimated period of time that we expect employees to hold their share-based options, we have used data on the historical exercise pattern of employees. We use the historical volatility of our common stock and the volatility of stocks of our comparative companies in order to estimate future share price trends. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. The risk-free interest rate that we use 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. We do not anticipate paying any cash dividends in the foreseeable future and therefore use an expected dividend yield of zero in the option valuation model. If the actual forfeiture rate differs significantly from our estimates, our stock-based compensation expense and our results of operations could be materially impacted.

Derivative Instruments and hedging activities

In the normal course of business, we actively look 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. Our primary exchange rate exposure is to U.K. pound sterling and the Indian rupee. We use 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 the changes in foreign currency exchange rates, and not for speculative trading purposes.

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We hedge 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 ASC topic 815, “*Derivatives and Hedging*” (ASC No. 815). Changes in the fair value of these cash flow hedges which are deemed effective, are deferred and recorded as a component of accumulated other comprehensive income/(loss), net of tax (AOCI) until the hedged transactions occur and are then recognized in the consolidated statements of income. Changes in the fair value of cash flow hedges deemed ineffective are recognized in the consolidated statement of income and are included in foreign exchange gain/(loss).

We also use derivatives consisting of foreign currency exchange contracts not designated as hedging instruments under ASC No. 815 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 consolidated statements of income and are included in foreign exchange gain/(loss).

We value our derivatives based on market observable inputs including both forward and spot prices for currencies. Derivative assets and liabilities included in Level 2 primarily represent foreign currency forward contracts. The quotes are taken primarily from highly rated financial institutions.

We evaluate 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 the consolidated statements of income and is included in foreign exchange gain/(loss). For hedge relationships that are 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.

Income Taxes

As part of the process of preparing our consolidated financial statements, we estimate our income taxes in each of the jurisdictions in which we operate. Tax estimates include decisions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. Based on our evaluation of our tax position, we believe we have adequately accrued for probable exposures as of December 31, 2009. To the extent we are able to prevail in matters for which accruals have been established or are required to pay amounts in excess of our reserves, our effective tax rate in a given financial statement period may be materially impacted.

We recognize deferred tax assets and liabilities for future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize the effect on deferred tax assets and liabilities of a change in tax rates in income in the period that includes the enactment date. We determine if a valuation allowance is required or not on the basis of an assessment of whether it is more likely than not that a deferred tax asset will be realized. At December 31, 2009, we performed an analysis of the deferred tax asset valuation allowance for certain units of our Indian subsidiaries, currently under the tax holiday period, and concluded that a valuation allowance offsetting those deferred tax assets be recorded, on the basis that it is more likely than not that there will not be future taxable income to realize the deferred tax assets. We perform this assessment at the end of each reporting period. Please see note 12 in the notes to our consolidated financial statements.

Retirement Benefits

We provide our employees in India and the Philippines with benefits under a defined benefit plan, which we refer to as the Gratuity Plan. The Gratuity Plan 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 us. We determine our liability under the Gratuity Plan by actuarial valuation using the

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projected unit credit method. Under this method, we determine our liability based upon the discounted value of salary increases until the date of separation arising from retirement, death, resignation or other termination of services. Critical assumptions used in measuring the plan expense and projected liability under the projected unit credit method include the discount rate, expected return on assets and the expected increase in the compensation rates. We evaluate these critical assumptions at least annually. If actual results differ significantly from our estimates, our gratuity expense and our results of operations could be materially impacted.

Results of Operations

The following table summarizes our results of operations:

	Year Ended December 31,		
	2009	2008 (in million)	2007
Total revenues(1)	\$ 191.0	\$ 181.7	\$ 152.0
Cost of revenues (exclusive of depreciation and amortization)(2)	109.4	112.4	100.1
Gross profit	81.6	69.3	51.9
Operating expenses:			
General and administrative expenses(3)	31.9	31.1	28.7
Selling and marketing expenses(3)	13.9	11.3	9.2
Depreciation and amortization expenses(4)	11.4	11.2	9.2
Total operating expenses	57.2	53.6	47.1
Income from continuing operations	24.4	15.7	4.8
Other income/(expense):			
Foreign exchange gain/(loss)	(5.9)	(9.4)	7.5
Interest and other income	1.0	3.5	4.3
Income from continuing operations before income taxes	19.5	9.8	16.6
Income tax provision/(benefit)	3.7	(1.3)	(1.0)
Income from continuing operations	15.8	11.1	17.6
Income/(loss) from discontinued operations, net of taxes	(0.1)	3.3	9.4
Net income	<u>\$ 15.7</u>	<u>\$ 14.4</u>	<u>\$ 27.0</u>

- (1) Revenues include reimbursable expenses of \$9.6 million in 2009, \$11.8 million in 2008 and \$7.1 million in 2007. Revenues also include contract termination fees of \$5.1 million in 2009 and \$0.4 million in 2008.
- (2) Cost of revenues includes \$1.4 million, \$1.1 million and \$1.1 for the years ended December 31, 2009, 2008 and 2007, 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 13 to our consolidated financial statements.
- (3) General and administrative expenses and selling and marketing expenses include \$5.7 million, \$4.2 million and \$3.2 million for the years ended December 31, 2009, 2008 and 2007, 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 13 to our consolidated financial statements.
- (4) Depreciation and amortization includes \$0.2 million, \$0.5 million and \$1.6 million for the years ended December 31, 2009, 2008 and 2007, respectively, of amortization of intangibles as described in note 5 to our consolidated financial statements.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenues. Revenues increased 5.1% from \$181.7 million for the year ended December 31, 2008 to \$191.0 million for the year ended December 31, 2009. Revenues from outsourcing services increased from \$138.8 million during the year ended December 31, 2008 to \$152.6 million during the year ended December 31, 2009. The increase is primarily due to volume increases within existing clients and the addition of approximately 120 processes during 2009 aggregating to \$12.5 million, receipt of a contract termination fee of \$5.1 million, revenues of \$4.2 million from new clients, including the acquisition of Schneider S.R.O., which increases were partially offset by a \$7.9 million reduction due to the appreciation of the U.S. dollar against the U.K. pound sterling.

Revenues from transformation services decreased from \$42.9 million during the year ended December 31, 2009 to \$38.4 million during the year ended December 31, 2008. The decrease in revenue is primarily due to reduced client spending on discretionary projects in 2009 and \$1.3 million of the reduction is due to the appreciation of the U.S. dollar against the U.K. pound sterling. Revenues from new clients for transformation services were \$1.8 million and \$3.8 million during the year ended December 31, 2009 and 2008, respectively.

Cost of Revenues. Cost of revenues decreased 2.7% from \$112.4 million for the year ended December 31, 2008 to \$109.4 million for the year ended December 31, 2009. Employee costs decreased from \$78.4 million for the year ended December 31, 2008 to \$76.1 million for the year ended December 31, 2009. The decrease is primarily due to the depreciation of the Indian rupee against the U.S. dollar, resulting in a decrease in of \$6.2 million and a decrease in employee transportation costs of \$2.1 million as part of our cost management initiatives. This decrease is partially offset by an annual increase in salaries and other related costs of \$3.8 million and costs of \$2.2 million related to our new operations center in Olomouc, the Czech Republic. Other operating costs decreased from \$34.1 million for the year ended December 31, 2008 to \$33.3 million for the year ended December 31, 2009, primarily due to the depreciation of the Indian rupee against the U.S. dollar. As a percentage of revenues, cost of revenues decreased from 61.9% for the period ended December 31, 2008 to 57.3% for the year ended December 31, 2009.

Gross Profit. Gross profit increased 17.8% from \$69.3 million for the year ended December 31, 2008 to \$81.6 million for the year ended December 31, 2009. The increase in gross profit was primarily due to an increase in revenues of \$9.3 million and decrease in cost of revenues of \$3.0 million. Gross profit as a percentage of revenues increased from 38.1% for the year ended December 31, 2008 to 42.7% for the year ended December 31, 2009, primarily due to an improvement of 160 basis points as a result of the receipt of a contract termination fee, approximately 200 basis points as a result of higher productivity in our outsourcing services and a balance increase due to a decrease in cost of revenues, as mentioned above.

SG&A Expenses. SG&A expenses increased 7.9% from \$42.4 million for the year ended December 31, 2008 to \$45.8 million for the year ended December 31, 2009. The increase in SG&A expenses is primarily due to an increase in selling and marketing expenses of \$2.6 million and acquisition-related transaction costs of \$0.5 million. As a percentage of revenues, SG&A increased from 23.4% for the year ended December 31, 2008 to 24.0% for the year ended December 31, 2009.

Depreciation and Amortization. Depreciation and amortization increased 2.2% from \$11.2 million for the year ended December 31, 2008 to \$11.4 million for the year ended December 31, 2009, primarily due to an increase in depreciation related to our operations centers in India and Philippines of \$1.0 million and \$0.2 million related to our new operations center in Olomouc, the Czech Republic. This increase is offset by the depreciation of the Indian rupee against the U.S. dollar, resulting in a decrease in cost of \$1.0 million. 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 our service requirements.

Income from Operations. Income from operations increased 55.8% from \$15.7 million for the year ended December 31, 2008 to \$24.4 million for the year ended December 31, 2009. As a percentage of revenues, income from operations increased from 8.6% for the year ended December 31, 2008 to 12.8% for the year ended December 31, 2009. The increase in income from operations was primarily due to an increase in revenues.

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Other Income/(expense). Other income/(expense) is comprised of foreign exchange gains and losses, interest income, interest expense and other. Other expenses decreased from \$(5.9) million for the year ended December 31, 2008 to \$(4.9) million for the year ended December 31, 2009 as a result of a decrease in net foreign exchange losses by \$3.4 million attributable to movement of the Indian rupee against the U.S. dollar and the U.K. pound sterling relative to our foreign exchange hedged position. This decrease is partially offset by lower interest income of \$2.4 million during the year ended December 31, 2009, due to lower interest rates.

Provision for Income Taxes. Provision for income taxes increased from a benefit of \$1.3 million for the year ended December 31, 2008 to an expense of \$3.7 million for the year ended December 31, 2009. The effective rate of taxes has increased significantly from a benefit of 13.7% for the year ended December 31, 2008 to an expense of 19.0% for the year ended December 31, 2009, primarily due to higher income in the U.S. and realization of a contract termination fee of \$5.1 million. Please see Note 12 to our notes to consolidated financial statements for further details.

Income/(loss) from Continuing Operations. Income from continuing operations increased from \$11.1 million for the year ended December 31, 2008 to \$15.8 million for the year ended December 31, 2009, primarily due to increase in higher operating income, partially offset by a higher provision for taxes. As a percentage of revenues, income from continuing operations increased from 6.1% for the year ended December 31, 2008 to 8.3% for the year ended December 31, 2009.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Revenues. Revenues increased 19.5% from \$152.0 million for the year ended December 31, 2007 to \$181.7 million for the year ended December 31, 2008. The overall increase of \$29.7 million was attributable to an increase of \$17.9 million in outsourcing services and \$11.8 million in transformation services and is net of a decrease of \$6.1 million due to the appreciation of the U.S. dollar with respect to the U.K. pound sterling. Revenue increases from new clients were \$0.5 million in outsourcing services and \$3.8 million in transformation services during the year ended December 31, 2008. Revenue increases from existing clients were attributable to volume increases within existing processes and the addition of 91 new processes during 2008.

Cost of Revenues. Cost of revenues increased 12.3% from \$100.1 million for the year ended December 31, 2007 to \$112.4 million for the year ended December 31, 2008. Salaries and personnel expenses for the Company increased from \$69.9 million for the year ended December 31, 2007 to \$78.4 million for the year ended December 31, 2008 as a result of an increase in headcount and salary levels. The operating costs related to our operations centers increased from \$17.0 million for the year ended December 31, 2007 to \$20.3 million for the year ended December 31, 2008, primarily reflecting our increased workforce and increased operating capacity. Cost of revenues decreased by \$5.3 million due to the depreciation of the Indian rupee with respect to the U.S. dollar. Cost of revenues includes \$1.1 million and \$1.1 million for the years ended December 31, 2008 and December 31, 2007, respectively, for 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 a percentage of revenues, cost of revenues decreased from 65.8% for the year ended December 31, 2007 to 61.9% for the year ended December 31, 2008.

Gross Profit. Gross profit increased 33.4% from \$51.9 million for the year ended December 31, 2007 to \$69.3 million for the year ended December 31, 2008. The increase in gross profit was primarily the result of increase in revenue by \$29.7 million, offset by increase in cost of revenues by \$12.3 million. Gross profit as a percentage of revenues increased from 34.2% for the year ended December 31, 2007 to 38.1% for the year ended December 31, 2008.

SG&A Expenses. SG&A expenses increased 12.0% from \$37.9 million for the year ended December 31, 2007 to \$42.4 million for the year ended December 31, 2008. General and administrative expenses increased 8.3% from \$28.7 million for the year ended December 31, 2007 to \$31.1 million for the year ended December 31, 2008 and selling and marketing expenses increased 23.7% from \$9.2 million for the year ended

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December 31, 2007 to \$11.3 million for the year ended December 31, 2008. Salary and personnel expenses included in SG&A increased from \$24.5 million for the year ended December 31, 2007 to \$27.8 million for the year ended December 31, 2008 primarily due to the addition of non-operations staff. Overall general and administrative expenses increased by \$1.1 million due to the addition of a new operations center in the Philippines and costs associated with setting up the center. SG&A expenses include \$4.2 million and \$3.2 million for the years ended December 31, 2008 and December 31, 2007, respectively, of non-cash amortization of stock compensation expense relating to our issuance of stock options to our non-operations staff. We expect our SG&A expenses to increase as we add significant additional sales and marketing staff in the United States and the United Kingdom. As a percentage of revenues, SG&A expenses decreased marginally from 24.9% for the year ended December 31, 2007 to 23.4% for the year ended December 31, 2008.

Depreciation and Amortization. Depreciation and amortization increased 21.1% from \$9.2 million for the year ended December 31, 2007 to \$11.2 million for the year ended December 31, 2008. This increase was due to expansion of our infrastructure, including our new operations center in Pasay City, Philippines, which became operational in April 2008. However, this was partially offset by a decrease in amortization of intangibles. 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 225.4% from \$4.8 million for the year ended December 31, 2007 to \$15.7 million for the year ended December 31, 2008. As a percentage of revenues, income from operations increased from 3.2% for the year ended December 31, 2007 to 8.6% for the year ended December 31, 2008. The increase in income from operations was primarily the result of an increase in gross profit of \$17.4 million, offset by an increase in operating expenses of \$6.5 million.

Other Income/(expense). Other income is comprised of foreign exchange gains and losses, interest income and interest expense. Other income decreased significantly from \$11.8 million for the year ended December 31, 2007 to (\$5.9) million for the year ended December 31, 2008 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 decreased from a benefit of \$1.0 million for the year ended December 31, 2007 to a benefit of \$1.3 million for the year ended December 31, 2008. The effective rate of taxes has increased from a benefit of 5.9% for the year ended December 31, 2007 to a benefit of 13.7% for the year ended December 31, 2008. This is primarily due to lower income as a result of the increase in foreign exchange losses and changes in the geographic distribution of our income.

Income from continuing operations. Income from continuing operations decreased from \$17.6 million for the year ended December 31, 2007 to \$11.1 million for the year ended December 31, 2008 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 11.6% for the year ended December 31, 2007 to 6.1% for the year ended December 31, 2008.

Liquidity and Capital Resources

At December 31, 2009, we had \$136.2 million in cash and cash equivalents and short-term investments.

Cash flows provided by operating activities increased from \$28.9 million in the year ended December 31, 2008 to \$35.7 million in the year ended December 31, 2009. Generally, factors that affect our earnings—including 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 increase in cash flows provided by operations for the year ended December 31, 2009 is predominantly due to changes in working capital by \$8.1 million, partially offset by the

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decrease in net income adjusted for non-cash items by \$0.5 million. Trade accounts receivable increased slightly from \$33.7 million at December 31, 2008 to \$34.9 million at December 31, 2009. However, our days' sales outstanding, including unbilled receivables decreased from approximately 70 days as of December 31, 2008 to 58 days as of December 31, 2009. Increase in cash flow from working capital changes is primarily due to changes in deferred revenue, other assets, income-tax payable and accounts payable resulting in net cash inflow aggregating to \$17.7 million, offset by the changes in restricted cash and accounts receivable resulting in net cash outflow of \$9.7 million during the year ended December 31, 2009 as compared to the year ended December 31, 2008.

Cash flows used for investing activities increased from \$16.0 million in the year ended December 31, 2008 to \$17.3 million in the year ended December 31, 2009. The increase is primarily due to net investments in time deposits of \$3.8 million and net payout for business acquisitions of \$1.4 million during the year ended December 31, 2009 (reflecting our purchase of Schneider S.R.O. for approximately \$3.5 million) as compared to the year ended December 31, 2008 (during which period we completed acquisitions for approximately \$2.1 million), partially offset by lower capital expenditures of \$3.4 million and net proceeds of \$1.4 million from sale of discontinued operations during the year ended December 31, 2009.

Cash flows provided by financing activities were insignificant during the years ended December 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 capital expenditures associated with leasehold improvements to build out our facilities and purchase of telecommunications and networking equipment and computer hardware and software in connection with managing client operations. We incurred approximately \$11.4 million of capital expenditures in the year ended December 31, 2009. We expect to incur capital expenditures of approximately \$20 million to \$22 million in the calendar year 2010 primarily to meet the growth requirements of our clients, including additions to our existing facilities and establishing new operations centers in Cluj, Romania, Noida, India and Jaipur, India 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. Through December 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 Mutual Agreement Procedure (MAP), we obtained bank guarantees of approximately \$2.9 million in April 2009 to stop the collection of the outstanding tax demands by the Indian tax authorities and interest for the assessment orders received by Exl Inc. for the 2003-04, 2004-05 and 2005-06 tax years. Subsequent to December 31, 2009, the Company has also obtained a bank guarantee of approximately \$3.5 million with respect to the assessment orders received by Exl India for the 2005-06 tax year. If additional assessment orders are received for subsequent years, we may invoke the MAP for such orders and would be required to obtain additional bank guarantees.

We anticipate that we will continue to rely upon cash from operating activities to finance our acquisitions, capital expenditures and working capital needs. Based on economic conditions as of December 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, we may need to obtain additional financing.

On July 3, 2009, we acquired a 100% stake in Schneider S.R.O., which is located in Olomouc, the Czech Republic, for cash consideration of approximately \$3.5 million (net of cash acquired of \$0.9 million), which was funded through our internal cash accruals. On November 4, 2009, we entered into an agreement with American Express to acquire the operations of the American Express Global Travel Service Center, a business unit of American Express located in Gurgaon, India, which acquisition was completed on March 1, 2010 for a purchase consideration of approximately \$29 million funded through our internal cash accruals.

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Off-Balance Sheet Arrangements

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

Contractual Obligations

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

	Payment Due by Period (in millions)				Total
	Less than 1 year	1-3 years	4-5 years	After 5 years	
Capital leases	\$ 0.2	\$ 0.1	\$ —	\$ —	\$ 0.3
Operating leases	3.5	4.2	1.8	2.3	11.8
Purchase obligations	3.1	—	—	—	3.1
Other obligations(a)	0.5	1.2	1.1	1.4	4.2
Total contractual cash obligations	<u>\$ 7.3</u>	<u>\$ 5.5</u>	<u>\$ 2.9</u>	<u>\$ 3.7</u>	<u>\$19.4</u>

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

Certain units of our Indian subsidiaries 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 the 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, we believe 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 2011. The registration has also provided us with certain incentives on the import of capital goods. We believe that Exl Philippines will achieve these export levels within the required timeframe.

Recent Accounting Pronouncements

In September 2009, the Financial Accounting Standards Board (FASB) issued Update No. 2009-13, "*Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force*" (ASU 2009-13). It updates the existing multiple-element revenue arrangements guidance currently included under ASC topic 605-25, which originated primarily from the guidance in EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" (EITF 00-21). The revised guidance primarily provides two significant changes: first, it eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and second, it eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure requirements for revenue recognition. ASU 2009-13 will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. We are currently assessing the future impact of this new accounting update on our consolidated financial statements.

In June 2009, the FASB issued FAS 168, "*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*," which was principally codified into ASC topic 105 "*Generally Accepted Accounting Standards*" (ASC No. 105). This standard will become the single source of authoritative nongovernmental U.S. generally accepted accounting principles. All existing accounting standard documents will be superseded and all other accounting literature not included in the FASB Codification will be considered

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non-authoritative. This guidance is effective for interim and annual periods ending after September 15, 2009. As ASC No. 105 was not intended to change existing accounting guidance, its adoption did not have an impact on our consolidated financial statements.

In May 2009, the FASB issued ASC topic 855-10 “*Subsequent events*,” which is effective for interim and annual periods ending after June 15, 2009. The guidance is intended to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date—that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. The adoption of this guidance did not have a material impact on our consolidated financial position, results of operations or cash flows. Please see note 18 to our notes to consolidated financial statements for further details.

In April 2009, the FASB amended the authoritative guidance on financial instruments to require disclosures about fair value of financial instruments in interim as well as in annual financial statements of publicly traded companies. The guidance is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Because the guidance applies only to financial statement disclosures, the adoption did not have a material effect on our consolidated financial position, results of operations or cash flows. Please see note 6 to our notes to consolidated financial statements for further details.

In December 2007, the FASB issued new accounting guidance for business combinations. The new accounting guidance 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. We acquired a 100% stake in Schneider S.R.O. on July 3, 2009. The acquisition was accounted for in accordance with this new accounting guidance. Please see note 5 to our notes to consolidated financial statements for further details.

In December 2007, the FASB issued ASC topic 810-10-65 “*Consolidation—Transition and Open Effective Date Information*.” ASC topic 810-10 establishes accounting and reporting standards for a non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. ASC topic 810-10-65 establishes accounting and reporting standards that require (i) the ownership interest in subsidiaries held by parties other than the parent to be clearly identified and presented in the consolidated balance sheet within equity, but separate from the parent’s equity, (ii) the amount of consolidated net income attributable to the parent and the non-controlling interest to be clearly identified and presented on the face of the consolidated statements of income, and (iii) changes in a parent’s ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently. The adoption of this guidance did not have a material impact on our consolidated financial position, results of operations or cash flows.

Forward Looking Statements

This Annual Report on Form 10-K 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 experience 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 Annual Report on Form 10-K, you should understand that these statements are not guarantees of performance or results. They involve known and unknown

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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 changes to or 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 Annual Report on Form 10-K. These and other risks could cause actual results to differ materially from those implied by forward looking statements in this Annual Report on Form 10-K.

You should keep in mind that any forward looking statement made by us in this Annual Report on Form 10-K, 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 Annual Report on Form 10-K after the date of this Annual Report on Form 10-K, except as required by federal securities laws.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

General

Market risk is the loss of future earnings, to fair values or to future cash flows that may result from a change in the price of a financial instrument. The value of a financial instrument may change as a result of changes in the interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market risk sensitive instruments. Market risk is attributable to all market sensitive financial instruments including foreign currency receivables and payables.

Our exposure to market risk is a function of our expenses and revenue generating activities in foreign currencies. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss. We manage market risk through our treasury operations. Our senior management and our board of directors

approve our treasury operation's objectives and policies. The activities of our treasury operations include management of cash resources, implementing hedging strategies for foreign currency exposures, borrowing strategies, if any, and ensuring compliance with market risk limits and policies.

Components of Market Risk

Foreign Currency Risk. Our exposure to market risk arises principally from exchange rate risk. Although substantially all of our revenues are denominated in U.S. dollars (63.8% in the year ended December 31, 2009) or U.K. pounds sterling (33.9% in the year ended December 31, 2009), substantial portion of our expenses were incurred and paid in Indian rupees and Philippine pesos. (57.1% and 6.0%, respectively in the year ended December 31, 2009). We also incur expenses in U.S. dollars, the Czech koruna and the currencies of the other countries in which we have operations. The exchange rates primarily among the Indian rupee, U.K. pound sterling and the U.S. dollar have changed substantially in recent years and may fluctuate substantially in the future.

Our exchange rate risk primarily arises from our foreign currency revenues, expenses incurred by our foreign subsidiaries and foreign currency accounts receivable and payable. Based upon our level of operations during the year ended December 31, 2009 and excluding any hedging arrangements that we had in place during that period, a 5.0% appreciation/depreciation in the U.K. pound sterling against the U.S. dollar would have increased/decreased revenues in the year ended December 31, 2009 by approximately \$3.2 million. Similarly, a 5.0% appreciation/depreciation in the Indian rupee against the U.S. dollar would have increased/decreased our expenses incurred and paid in Indian rupees in the year ended December 31, 2009 by approximately \$5.2 million.

We have sought to reduce the effect of Indian rupee, U.K. pound sterling and certain other local currency exchange rate fluctuations on our operating results by purchasing forward foreign exchange contracts to cover a substantial portion of our expected cash flows. Forward exchange contracts with a notional amount of \$90.0 million and GBP 7.7 million were outstanding at December 31, 2009 and of \$110.2 million and GBP 30.3 million were outstanding at December 31, 2008. The forward foreign exchange contracts typically mature within one to thirty-six months, must be settled on the day of maturity or may be cancelled subject to the payment of any gains or losses in the difference between the contract exchange rate and the market exchange rate on the date of cancellation. We use these instruments as cash flow hedges and not for speculative purposes. We may not purchase contracts adequate to insulate ourselves from Indian rupee and U.K. pound sterling foreign exchange currency risks. In addition, any such contracts may not perform adequately as a hedging mechanism. We may, in the future, adopt more active hedging policies, and have done so in the past.

We hedge our net recognized foreign currency assets and liabilities with foreign exchange forward contracts to reduce the risk that our earnings and cash flows will be adversely affected by changes in foreign currency exchange rates. These derivative instruments hedge assets and liabilities that are denominated in foreign currencies and are carried at fair value with changes in the fair value recorded as foreign exchange gain/(loss). These derivative instruments do not subject us to material balance sheet risk due to exchange rate movements because gains and losses on these derivatives are intended to offset gains and losses on the assets and liabilities being hedged. At December 31, 2009, the outstanding balance sheet hedging derivatives had maturities of 30 days or less.

Interest Rate Risk. We had cash, cash equivalents and short-term investments totaling \$136.2 million at December 31, 2009. These amounts were invested principally in a short-term investment portfolio primarily comprised of highly-rated mutual funds, money market accounts and time deposits. The cash and cash equivalents are held for potential acquisitions of complementary businesses or assets, working capital requirements and general corporate purposes. We do not enter into investments for trading or speculative purposes. We believe that we have no material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. The interest income from these funds will be subject to fluctuations due to changes in interest rates. Declines in interest rates would reduce future investment income. A 1.0% decrease in short term rates would reduce our interest income for the year ended December 31, 2009 by approximately \$0.3 million.

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Credit Risk. As of December 31, 2009, we had accounts receivable of \$34.9 million. Accounts receivable from our largest client account for 19.2% of our total outstanding receivable as of December 31, 2009. We believe that our credit policies reflect normal industry terms and business risk. We do not anticipate non-performance by the counterparties and, accordingly, do not require collateral. Credit losses and write-offs of accounts receivable balances have historically not been material to our financial statements and have not exceeded our expectations.

ITEM 8. Financial Statements and Supplementary Data

The financial statements required to be filed pursuant to this Item 8 are appended to this Annual Report on Form 10-K. A list of the financial statements filed herewith is found at “Item 15. Exhibits and Financial Statement Schedules.”

ITEM 9. Changes in and Disagreement with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. 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 Annual Report on Form 10-K, 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 December 31, 2009. Based upon that evaluation, the CEO and CFO have concluded that, as of December 31, 2009, our disclosure controls and procedures were effective.

Management’s Responsibility for Financial Statements

Responsibility for the objectivity, integrity, and presentation of the accompanying financial statements and other financial information presented in this report rests with the Company’s management. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The financial statements include amounts that are based on estimates and judgments which management believes are reasonable under the circumstances.

Ernst & Young LLP, an independent registered public accounting firm, is retained to audit EXL’s consolidated financial statements and the effectiveness of the Company’s internal control over financial reporting. Its accompanying reports are based on audits conducted in accordance with the standards of the Public Company Accounting Oversight Board.

The Audit Committee of the board of directors is composed solely of independent directors, and is responsible for recommending to the Board the independent public accounting firm to be retained for the coming year. The Audit Committee meets regularly and privately with the independent public accountants, with the company’s internal auditors, and with management to review accounting, auditing, internal control and financial reporting matters.

Management's Annual Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act. Those rules define internal control over financial reporting as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States;
- provide reasonable assurance that receipts and expenditures of the Company are being made only in accordance with the authorization of management and board of directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009. In making this assessment, management used the criteria described in "*Internal Control—Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of the board of directors. Based on this assessment and those criteria, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2009. See Ernst & Young LLP's accompanying report on their audit of the Company's internal controls over financial reporting.

Changes in Internal Control over Financial Reporting

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

ITEM 9B. Other Information.

Effective March 16, 2010, we have increased Mr. Kapoor's annual base salary to \$500,000, extended the term of his employment to December 31, 2012, and increased the amount we will pay for the lease of an automobile for Mr. Kapoor to \$1,400 per month. In addition, we corrected the provisions that relate to accelerated vesting of equity on certain terminations of his employment within 12 months following a change in control (which were inadvertently modified when Mr. Kapoor's prior employment agreement was replaced in 2008 with his current employment agreement), so that such acceleration of vesting will apply to all unvested equity awards granted on and after September 30, 2006 (rather than applying to only those unvested equity awards granted on and after December 16, 2008).

PART III.

ITEM 10. Directors and Executive Officers of the Registrant.

Code of Ethics.

We have adopted a code of conduct and ethics that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer, and persons performing similar functions. Our code of conduct and ethics can be found posted in the investor relations section on our website at <http://www.exlservice.com>.

We incorporate by reference the information responsive to this Item appearing in the definitive proxy statement for our 2010 Annual Meeting of Stockholders, which we refer to as our Proxy Statement, which we intend to file with the SEC within 120 days after the fiscal year end of December 31, 2009.

ITEM 11. Executive Compensation.

We incorporate by reference the information responsive to this Item appearing in our Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

We incorporate by reference the information responsive to this Item appearing in our Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence.

We incorporate by reference the information responsive to this Item appearing in our Proxy Statement.

ITEM 14. Principal Accountant Fees and Services.

We incorporate by reference the information responsive to this Item appearing in our Proxy Statement.

PART IV.

ITEM 15. Exhibits and Financial Statement Schedules.

(a) 1. Financial Statements.

The consolidated financial statements are listed under Item 8 of this Annual Report on Form 10-K.

2. Financial Statement Schedules.

Financial statement schedules as of December 31, 2009 and 2008, have been omitted since they are either not required, not material or the information is otherwise included in our consolidated financial statements or the notes to our consolidated financial statements.

3. Exhibits.

The Exhibits filed as part of this Annual Report on Form 10-K are listed on the Exhibit Index immediately preceding such Exhibits, which Exhibit Index is incorporated in this Annual Report on Form 10-K by reference.

(b) Exhibits—see Item 15(a)(3) above.

(c) Financial Statement Schedules—see Item 15(a)(2) above.

INDEX TO EXHIBITS

The following exhibits are being filed as part of this Annual Report on Form 10-K:

- 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on October 25, 2006).
- 3.2 Second Amended and Restated By-laws (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on April 30, 2008).
- 4.1 Specimen Stock Certificate (incorporated by reference to Exhibit 4.1 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 4.2 Registration Rights Agreement (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on October 25, 2006).
- 10.1** Professional Services Agreement, dated March 7, 2006, between The Travelers Indemnity Company and ExlService Holdings, Inc as amended by Amendment 3, effective January 1, 2009.
- 10.2 Employment Agreement, dated May 1, 2009, between exlservice.com (India) Private Limited and Vishal Chhibbar.
- 10.3 Letter Agreement, effective June 1, 2009, between ExlService Holdings, Inc, and Vishal Chhibbar.
- 10.4 Employment Contract, as amended, effective October 3, 2006, by and between ExlService Inc. and Amit Shashank (incorporated by reference to Exhibit 10.12 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.5 Amended and Restated Employment and Non-Competition Agreement entered into by and among ExlService Holdings, Inc. and Vikram Talwar (incorporated by reference to Exhibit 10.10 to Annual Report on Form 10-K filed on March 16, 2009).
- 10.6 Amended and Restated Employment and Non-Competition Agreement entered into by and among ExlService Holdings, Inc. and Rohit Kapoor (incorporated by reference to Exhibit 10.11 to Annual Report on Form 10-K filed on March 16, 2009).
- 10.7 Amendment to the Amended and Restated Employment and Non-Competition Agreement entered into by and among ExlService Holdings, Inc. and Rohit Kapoor.
- 10.8 ExlService Holdings, Inc. 2003 India Stock Option Plan (incorporated by reference to Exhibit 10.16 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.9 ExlService Holdings, Inc. 2003 Stock Option Plan (incorporated by reference to Exhibit 10.18 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.10 ExlService Holdings, Inc. 2006 Omnibus Plan (incorporated by reference to Exhibit 10.20 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.11 ExlService Holdings, Inc. 2006 Omnibus India Subplan 1 (incorporated by reference to Exhibit 10.21 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.12 Form of Stock Option Agreement under the 2006 Omnibus India Subplan 1 (incorporated by reference to Exhibit 10.22 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.13 ExlService Holdings, Inc. Management Incentive Plan (incorporated by reference to Exhibit 10.23 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.14 Form of Restricted Stock Award Agreement under the 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.31 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.15 Form of Stock Option Agreement under the 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.32 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.16 Form of Restricted Stock Award Agreement under the 2006 Omnibus India Subplan 1 (incorporated by reference to Exhibit 10.33 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).

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10.17	Amended and Restated Nonqualified Stock Option Award Agreement between Amit Shashank and the Company dated June 1, 2005 (incorporated by reference to Exhibit 10.35 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
10.18	Separation Agreement, dated as of October 10, 2008, between EXL Service Holdings Inc. and Matthew Appel (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q filed on May 11, 2009).
10.19	ExlService Holdings, Inc. 2006 Omnibus India Subplan 2 (incorporated by reference to Exhibit 10.38 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
10.20	Form of Stock Option Agreement under the 2006 Omnibus India Subplan 2 (incorporated by reference to Exhibit 10.39 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
10.21	Form of Restricted Stock Award Agreement under the 2006 Omnibus India Subplan 2 (incorporated by reference to Exhibit 10.40 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
10.22	Restricted Stock Award Agreement between Vikram Talwar and the Company dated July 27, 2006 (incorporated by reference to Exhibit 10.41 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
10.23	Non-Qualified Stock Option Agreement between Rohit Kapoor and the Company dated July 27, 2006 (incorporated by reference to Exhibit 10.42 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
10.24	Amendment to ExlService Holdings, Inc. 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.43 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
10.25	Form of Restricted Stock Unit Agreement 1 under the 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.44 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
10.26	Form of Restricted Stock Unit Agreement 2 under the 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.45 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
10.27	Amendment No. 2 to ExlService Holdings, Inc. 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.46 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
10.28	Letter Agreement, dated March 10, 2009, between EXL Service Holdings Inc. and Matthew Appel (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q filed on May 11, 2009).
10.29	Form of 2010 Restricted Stock Unit Agreement 1 (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed on February 4, 2010).
10.30	Form of 2010 Restricted Stock Unit Agreement 2 (incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K filed on February 4, 2010).
10.31	Form of 2010 Restricted Stock Unit Agreement 3 (incorporated by reference to Exhibit 99.3 to the Current Report on Form 8-K filed on February 4, 2010).
10.32	Form of 2010 Restricted Stock Unit Agreement 4 (incorporated by reference to Exhibit 99.4 to the Current Report on Form 8-K filed on February 4, 2010).
10.33	Form of 2010 Restricted Stock Unit Agreement 5 (incorporated by reference to Exhibit 99.5 to the Current Report on Form 8-K filed on February 4, 2010).
10.34*	Framework Agreement, dated July 25, 2005, between Centrica plc, the Company and ExlService.com (India) Private Limited (incorporated by reference to Exhibit 10.37 to Annual Report on Form 10-K filed on March 16, 2009).

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10.35	Notice of Extension between Centrica plc and the Company, dated July 11, 2008 (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed on November 10, 2008).
10.36**	Amendment No. 6, dated April 1, 2009, to the Framework Agreement between Centrica plc, the Company and ExlService.com (India) Private Limited.
10.37	Amendment No. 3 to ExlService Holdings, Inc. 2006 Omnibus Award Plan (incorporated by reference to Exhibit 4.6 to our Registration Statement on Form S-8 (No. 333-157076)).
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of the Executive Chairman of ExlService Holdings, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of ExlService Holdings, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of the President and Chief Executive Officer of ExlService Holdings, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Executive Chairman pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.3	Certification of the President and Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Portions of this exhibit have been omitted pursuant to confidential treatment granted by the Commission.

** Certain portions of this exhibit have been omitted in connection with an application for confidential treatment therefor.

EXLSERVICE HOLDINGS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements:

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Board of Directors and Stockholders of
ExlService Holdings, Inc.

We have audited the accompanying consolidated balance sheets of ExlService Holdings, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity and comprehensive income (loss) and cash flows for each of the three years in the period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ExlService Holdings, Inc. and subsidiaries as of December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ExlService Holdings Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
March 16, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of ExlService Holdings, Inc.

We have audited ExlService Holdings, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). ExlService Holdings, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, ExlService Holdings, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ExlService Holdings Inc. as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity and comprehensive income (loss) and cash flows for each of the three years in the period ended December 31, 2009 and our report dated March 16, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
March 16, 2010

EXLSERVICE HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	December 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 132,215	\$ 112,174
Short-term investments	4,009	153
Restricted cash	65	203
Accounts receivable, net of allowance for doubtful accounts of \$262 in 2009 and \$128 in 2008	34,856	33,714
Employee receivables	179	203
Prepaid expenses	2,484	2,635
Deferred tax assets	4,872	3,401
Advance income-tax, net	—	2,033
Other current assets	2,866	3,362
Total current assets	<u>181,546</u>	<u>157,878</u>
Fixed assets, net	23,964	24,518
Restricted cash	3,895	281
Deferred tax assets	8,482	3,047
Intangibles, net of amortization	627	—
Goodwill	19,619	17,557
Other assets	11,487	8,688
Total assets	<u>\$ 249,620</u>	<u>\$ 211,969</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 5,345	\$ 3,371
Deferred revenue	4,745	2,961
Accrued employee cost	16,020	14,725
Accrued expenses and other current liabilities	11,530	17,890
Income taxes payable	543	—
Current portion of capital lease obligations	144	121
Total current liabilities	<u>38,327</u>	<u>39,068</u>
Capital lease obligations, less current portion	137	179
Other non-current liabilities	5,438	1,390
Total liabilities	<u>43,902</u>	<u>40,637</u>
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, 29,278,103 shares issued and 29,031,073 shares outstanding as of December 31, 2009 and 29,054,145 shares issued and 28,817,065 shares outstanding as of December 31, 2008.	29	29
Additional paid-in capital	124,493	116,676
Retained earnings	85,674	70,021
Accumulated other comprehensive income/(loss)	(3,515)	(14,491)
	<u>206,681</u>	<u>172,235</u>
Less: 247,030 shares as of December 31, 2009 and 237,080 shares as of December 31, 2008, held in treasury, at cost	(976)	(903)
ExlService Holdings, Inc. stockholders' equity	<u>205,705</u>	<u>171,332</u>
Noncontrolling interest	13	—
Total stockholders' equity	<u>205,718</u>	<u>171,332</u>
Total liabilities and stockholders' equity	<u>\$ 249,620</u>	<u>\$ 211,969</u>

See accompanying notes

EXLSERVICE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except share and per share amounts)

	Year ended December 31,		
	2009	2008	2007
Revenues	\$ 190,426	\$ 181,086	\$ 150,402
Revenues (from related parties)	569	628	1,631
Total revenues	190,995	181,714	152,033
Cost of revenues (exclusive of depreciation and amortization)	109,389	112,436	100,112
Gross profit	81,606	69,278	51,921
Operating expenses:			—
General and administrative expenses	31,850	31,113	28,724
Selling and marketing expenses	13,950	11,344	9,171
Depreciation and amortization	11,405	11,156	9,212
Total operating expenses	57,205	53,613	47,107
Income from continuing operations	24,401	15,665	4,814
Other income/(expense):			
Foreign exchange gain/(loss)	(5,929)	(9,276)	7,584
Interest and other income, net	1,023	3,408	4,203
Income from continuing operations before income taxes	19,495	9,797	16,601
Income tax provision/(benefit)	3,703	(1,340)	(974)
Income from continuing operations	15,792	11,137	17,575
Income/(loss) from discontinued operations, net of taxes	(139)	3,271	9,469
Net income	<u>\$ 15,653</u>	<u>\$ 14,408</u>	<u>\$ 27,044</u>
Earnings per share(a):			
Basic:			
Continuing operations	\$ 0.55	\$ 0.39	\$ 0.62
Discontinued operations	—	0.11	0.33
	<u>\$ 0.54</u>	<u>\$ 0.50</u>	<u>\$ 0.95</u>
Diluted:			
Continuing operations	\$ 0.54	\$ 0.38	\$ 0.60
Discontinued operations	—	0.11	0.32
	<u>\$ 0.53</u>	<u>\$ 0.49</u>	<u>\$ 0.93</u>
Weighted-average number of shares used in computing earnings per share:			
Basic	28,963,770	28,811,040	28,480,033
Diluted	29,417,910	29,212,045	29,191,199

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

See accompanying notes

EXLSERVICE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME/(LOSS)
(In thousands, except share and per share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock		Non- Controlling Interest	Total
	Shares	Amount				Shares	Amount		
Balance as of December 31, 2006	28,262,289	\$ 28	\$ 98,429	\$ 28,665	\$ 110	(149,138)	\$ (36)	\$ —	\$127,196
Stock issued on exercise/vesting of equity awards	371,481	1	1,864	—	—	—	—	—	1,865
Non-employee stock options	—	—	187	—	—	—	—	—	187
Issuance of stock on acquisition of Inductis	257,273	—	5,449	—	—	—	—	—	5,449
Stock based compensation	—	—	4,307	—	—	—	—	—	4,307
Excess tax benefit from Stock Based Compensation	—	—	753	—	—	—	—	—	753
Acquisition of treasury stock	—	—	—	—	—	(14,552)	(280)	—	(280)
Comprehensive income:									
Translation adjustments	—	—	—	—	2,242	—	—	—	2,242
Unrealized gain on cash flow hedges	—	—	—	—	12,262	—	—	—	12,262
Retirement benefits, net of taxes of \$8,588	—	—	—	—	(202)	—	—	—	(202)
Reclassification adjustment:									
Cash flow hedges	—	—	—	—	(6,842)	—	—	—	(6,842)
Net income	—	—	—	27,043	—	—	—	—	27,043
Total comprehensive income	—	—	—	—	—	—	—	—	34,503
Balance as of December 31, 2007	28,891,043	\$ 29	\$ 110,989	\$ 55,708	\$ 7,570	(163,690)	\$ (316)	\$ —	\$173,980
Adjustment for change in measurement date pursuant to FAS 158, net of taxes of \$5,720 Service cost and Interest cost	—	—	—	(70)	—	—	—	—	(70)
Amortization of actuarial loss	—	—	—	(25)	25	—	—	—	—
Stock issued on exercise/vesting of equity awards	163,102	—	620	—	—	—	—	—	620
Non-employee stock options	—	—	(70)	—	—	—	—	—	(70)
Stock based compensation	—	—	5,278	—	—	—	—	—	5,278
Excess tax expense from stock based compensation	—	—	(141)	—	—	—	—	—	(141)
Acquisition of treasury stock	—	—	—	—	—	(73,390)	(587)	—	(587)
Comprehensive income:									
Translation adjustments	—	—	—	—	(10,198)	—	—	—	(10,198)
Unrealized (loss) on cash flow hedges, net of taxes \$0	—	—	—	—	(15,641)	—	—	—	(15,641)
Retirement benefits, net of taxes \$0	—	—	—	—	82	—	—	—	82
Reclassification adjustment:									
Cash flow hedges	—	—	—	—	3,671	—	—	—	3,671
Net income	—	—	—	14,408	—	—	—	—	14,408
Total comprehensive loss	—	—	—	—	—	—	—	—	(7,678)
Balance as of December 31, 2008	29,054,145	\$ 29	\$ 116,676	\$ 70,021	\$ (14,491)	(237,080)	\$ (903)	\$ —	\$171,332
Stock issued on exercise/vesting of equity awards	223,958	—	979	—	—	—	—	—	979
Non-employee stock options	—	—	80	—	—	—	—	—	80
Stock based compensation	—	—	7,093	—	—	—	—	—	7,093
Excess tax expense from stock based compensation	—	—	(343)	—	—	—	—	—	(343)
Acquisition of treasury stock	—	—	—	—	—	(9,950)	(73)	—	(73)
Non controlling interest	—	—	8	—	—	—	—	13	21
Comprehensive income:									
Translation adjustments	—	—	—	—	3,026	—	—	—	3,026
Unrealized gain on cash flow hedges, net of taxes \$566	—	—	—	—	1,725	—	—	—	1,725
Retirement benefits, net of taxes \$137	—	—	—	—	(246)	—	—	—	(246)
Reclassification adjustment:									
Unrealized gain (loss) on cash flow hedges	—	—	—	—	6,398	—	—	—	6,398
Retirement benefits	—	—	—	—	73	—	—	—	73
Net income	—	—	—	15,653	—	—	—	—	15,653
Total comprehensive income	—	—	—	—	—	—	—	—	26,629
Balance as of December 31, 2009	29,278,103	\$ 29	\$ 124,493	\$ 85,674	\$ (3,515)	(247,030)	\$ (976)	\$ 13	\$205,718

See accompanying notes

EXLSERVICE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands, except share and per share amounts)

	Year ended December 31,		
	2009	2008	2007
Cash flows from operating activities			
Net income	\$ 15,653	\$ 14,408	\$ 27,044
(Income)/ Loss from discontinued operations, net of taxes	139	(3,271)	(9,469)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,405	11,156	9,212
Share-based compensation expense	7,093	5,278	4,307
Non-employee stock options	140	288	545
Unrealized foreign exchange (gain)/loss	(98)	1,597	(1,165)
Deferred income taxes	(8,400)	(2,065)	(3,763)
Excess tax expense/(benefit) from stock-based compensation	343	141	(753)
Change in operating assets and liabilities (net of effect of acquisitions):			
Restricted cash	(3,258)	(51)	885
Accounts receivable	(287)	6,199	(12,419)
Prepaid expenses and other current assets	(54)	(2,796)	2,415
Accounts payable	1,211	(1,603)	1,426
Deferred revenue	3,333	(1,016)	(2,052)
Accrued expenses and other liabilities	3,844	6,536	3,976
Income taxes payable	2,514	(2,806)	(2,039)
Other assets	2,117	(3,123)	(5,394)
Net cash provided by operating activities—continuing operations	35,695	28,872	12,756
Net cash provided by operating activities—discontinued operations	—	5,501	10,669
Net cash provided by operating activities	35,695	34,373	23,425
Cash flows from investing activities			
Purchase of fixed assets	(11,416)	(14,832)	(8,589)
Business acquisition (net of cash)	(3,529)	(2,156)	—
Purchase of short-term investments	(3,987)	—	(253)
Proceeds from redemption of short-term investment	153	—	—
Proceeds from sale of discontinued operations	1,448	1,038	—
Net cash used in investing activities—continuing operations	(17,331)	(15,950)	(8,842)
Net cash used in investing activities—discontinued operations	—	(40)	(123)
Net cash used in investing activities	(17,331)	(15,990)	(8,965)
Cash flows from financing activities			
Principal payments on capital lease obligations	(114)	(133)	(153)
Proceeds from exercise of stock options	979	620	1,641
Excess tax benefit/(deficiency) from stock-based compensation	(343)	(141)	753
Proceeds from issuance of stock to minority shareholders	21	—	—
Acquisition of treasury stock	(73)	(587)	(280)
Net cash provided by/(used for) financing activities	470	(241)	1,961
Effect of exchange rate changes on cash and cash equivalents	1,207	(8,178)	423
Net increase in cash and cash equivalents	20,041	9,964	16,844
Cash and cash equivalents, beginning of year	112,174	102,210	85,366
Cash and cash equivalents, end of year	132,215	112,174	102,210
Less: Cash and cash equivalents of discontinued operations, end of year	—	—	804
Cash and cash equivalents of continuing operations, end of year	\$ 132,215	\$ 112,174	\$ 101,406
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 22	\$ 52	\$ 42
Cash paid for taxes, net of refund	\$ 4,845	\$ 4,198	\$ 7,017
Assets acquired under capital lease	\$ 108	\$ 223	\$ 106
Issuance of stock on acquisition of Inductis	\$ —	\$ —	\$ 5,449

See accompanying notes

EXLSERVICE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009
(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 (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

Certain amounts in the prior year’s financial statements and related notes have been reclassified to conform to the 2009 presentation.

2. Summary of Significant Accounting Policies

Basis of Preparation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles. The accompanying financial statements have been prepared on a consolidated basis and reflect the financial statements of ExlService Holdings and all of its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The minority interest represents the minority partner’s interest in the operation of Exl India and the profits associated with the minority partner’s interest in those operations, in the consolidated balance sheet and consolidated statement of income, respectively. The minority partner’s interest in the operations for the year ended December 31, 2009 was insignificant.

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 receivables, future obligations under employee benefit plans, deferred tax valuation allowances, income-tax uncertainties and other contingencies, valuation of derivatives financial instruments, stock-based compensation expense, depreciation and amortization periods, recoverability of long-term assets including goodwill and intangibles, and estimates to complete fixed price contracts.

Foreign Currency Translation

The functional currency of each entity in the Company is its respective local country currency, which is also the currency of the primary economic environment in which it operates unless otherwise specified. Monetary assets and liabilities in foreign currencies are re-measured into functional currency at the rates of exchange

EXLSERVICE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2009
(In thousands, except share and per share amounts)

prevailing at the balance sheet dates. Transactions in foreign currencies are re-measured into functional currency at the rates of exchange prevailing on the date of the transaction. All transaction foreign exchange gains and losses are recorded in the accompanying consolidated statements of income.

The assets and liabilities of the subsidiaries for which the functional currency is other than the U.S. dollar are translated into U.S. dollars, the reporting currency, at the rate of exchange prevailing on the balance sheet dates. Revenues and expenses are translated into U.S. dollars at the exchange rates prevailing on the last business day of each month, which approximates the average monthly exchange rate. Resulting translation adjustments are included in accumulated other comprehensive income/(loss).

Revenue Recognition

The Company derives its revenues from outsourcing services and from transformation services. Revenues from outsourcing services are recognized primarily on a time-and-material, cost-plus or unit-priced basis; revenues from transformation services are recognized primarily on a time-and-material, fixed price or contingent fee basis. The services provided within the Company's contracts generally contain one unit of accounting. Revenue is recognized under the Company's contracts generally when persuasive evidence of an arrangement exists, the sales price is fixed or determinable and collection of amounts billed is reasonably assured.

Revenue is 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. Revenue is recognized on cost-plus contracts on the basis of contractually agreed direct and indirect costs incurred on a client contract plus an agreed upon profit mark-up. Revenue is 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. Such revenues are recognized as the related services are provided in accordance with the client contract. When the terms of the client contract specify service level parameters that must be met (such as turnaround time or accuracy), the Company monitors such service level parameters to determine if any service credits or penalties have been incurred. Revenue is recognized net of any service credits that are due to a client. The Company has experienced minimal credits and penalties to date.

Revenue is recognized on fixed-price contracts using the proportional performance method. The Company estimates the proportional performance of a contract by comparing the actual number of hours or days worked to date to the estimated total number of hours or days required to complete each engagement. The use of the proportional performance method requires significant judgment relative to estimating the number of hours or days required to complete the contracted scope of work, including assumptions and estimates relative to the length of time to complete the project and the nature and complexity of the work to be performed. The Company regularly monitors its estimates for completion of a project and record changes in the period in which a change in an estimate is determined. If a change in an estimate results in a projected loss on a project, such loss is recognized in the period in which it is first identified.

Revenue on contingent fee based contracts is recognized when the related contingency has been met to the client's satisfaction.

The Company accrues for revenue and receivables for services rendered between the last billing date and the balance sheet date. Accordingly, our accounts receivable include amounts for services that we have performed and for which an invoice has not yet been issued to the client.

EXLSERVICE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2009
(In thousands, except share and per share amounts)

During the year ended December 31, 2009 and 2008, the Company received \$5,075 and \$436 of contract termination fees. These amounts are included in revenues in the consolidated statements of income.

Reimbursements of out-of-pocket expenses received from clients have been included as part of revenues in accordance with EITF 01-14, “*Income Statement Characterization of Reimbursements Received for “Out-of-Pocket” Expenses Incurred.*”

Revenues for the following periods include reimbursements of out-of-pocket expenses:

Year ended December 31, 2009	\$ 9,564
Year ended December 31, 2008	\$ 11,807
Year ended December 31, 2007	\$ 7,077

Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Pursuant to the Company’s investment policy, its surplus funds are kept as cash or cash equivalents and are invested in highly-rated mutual funds, money market accounts and time deposits to reduce its exposure to market risk with regard to these funds.

Current restricted cash represents amounts on deposit with banks against bank guarantees issued through banks for equipment imports that will mature on various dates before December 31, 2010.

Non-current restricted cash represents amounts on deposit with banks against bank guarantees issued through banks for equipment imports, amounts in an escrow account related to acquisitions and for demands against pending income tax assessments (see note 16 for details), that will mature on various dates after December 31, 2010.

Investments

The Company’s investments consist of time deposits with financial institutions which are valued at cost and approximate fair value. Interest earned on such investments is included in interest income. Investments with maturities of less than twelve months from the balance sheet date are classified as short-term investments. Investments with maturities greater than twelve months from the balance sheet date are classified as long-term investments.

Accounts Receivable

Accounts receivable are recorded net of allowances for doubtful accounts. Allowances for doubtful accounts are established through the evaluation of accounts receivables aging and prior collection experience to estimate the ultimate collectability of these receivables.

Accounts receivable include unbilled accounts receivable which represents revenue for services performed but yet to be billed to the client. As on December 31, 2009 and 2008, the Company had \$1,000 and \$1,292 of unbilled accounts receivable, respectively.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation and amortization. Equipment held under capital leases is stated at the lower of present value of minimum lease payments at the inception of the leases or its fair value. Advances paid towards acquisition of fixed assets and the cost of fixed assets not yet placed in service before the end of the period are classified as construction in progress.

EXLSERVICE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
December 31, 2009
(In thousands, except share and per share amounts)

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable through an assessment of the estimated future undiscounted cash flows related to such assets. In the event that assets are found to be carried at amounts that are in excess of estimated undiscounted future cash flows, the carrying value of the related asset or group of assets is reduced to a level commensurate with fair value based on a discounted cash flow analysis.

Depreciation is computed using the straight-line method over the following estimated useful lives of the assets. Depreciation and amortization on equipment held under capital leases and leasehold improvements are computed using the straight-line method over the shorter of the assets' estimated useful lives or the lease term.

	Estimated Useful Life (Years)
Network equipment, cabling and computers	3-5
Buildings	30
Land	—
Leasehold improvements	3-5
Office furniture and equipment	3-7
Motor vehicles	3-4

Business Combinations, Goodwill and Other Intangible Assets

Accounting Standards Codification (“ASC”) topic 850, “*Business Combinations*” (“ASC No. 850”), requires that the purchase method of accounting be used for all business combinations. The guidance specifies criteria as to intangible assets acquired in a business combination that must be recognized and reported separately from goodwill. ASC topic 350, “*Intangibles—Goodwill and Other*” (“ASC No. 350”), all assets and liabilities of the acquired businesses, including goodwill, are assigned to reporting units.

Goodwill represents the cost of the acquired businesses in excess of the fair value of identifiable tangible and intangible net assets purchased. Goodwill is not amortized but is tested for impairment at least on an annual basis, relying on a number of factors including operating results, business plans and future cash flows. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. The fair value of the reporting unit is measured by discounting estimated future cash flows. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Goodwill of a reporting unit will be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

Intangible assets are initially valued at fair market value using generally accepted valuation methods appropriate for the type of intangible asset. Intangible assets with definite lives are amortized over the estimated useful lives and are reviewed for impairment, if indicators of impairment arise. The evaluation of impairment is based upon a comparison of the carrying amount of the intangible asset to the estimated future undiscounted net cash flows expected to be generated by the asset. If estimated future undiscounted cash flows are less than the carrying amount of the asset, the asset is considered impaired. The impairment expense is determined by comparing the estimated fair value of the intangible asset to its carrying value, with any shortfall from fair value recognized as an expense in the current period.

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The Company's definite lived intangible assets are amortized over their estimated useful lives as listed below using a straight-line method or a method of amortization that reflects the pattern in which the economic benefits of the intangibles assets were consumed or otherwise realized:

Customer relationships	1-3 years
Trademarks	1.5 years
Non-compete agreements	1 year

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 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 ASC topic No. 815, "*Derivatives and Hedging*" ("ASC No. 815"). 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 hedged transactions occur and at that time are recognized in the consolidated statements of income. Changes in the fair value of cash flow hedges deemed ineffective are recognized in the consolidated statement of income and are included in foreign exchange gain/(loss). The Company also uses derivatives instruments consisting of foreign currency exchange contracts not designated as hedging instruments under ASC No. 815 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 consolidated statements 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 the consolidated statements of income and is included in foreign exchange gain/(loss). For hedge relationships that are 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.

Retirement Benefits

Contributions to defined contribution plans are charged to consolidated statements of income in the period in which services are rendered by the covered employees. Current service costs for defined benefit plans are accrued in the period to which they relate. In accordance with ASC No. 715, "*Compensation Retirement Benefit*" ("ASC No. 715"), the liability in respect of defined benefit plans is calculated annually by the Company using the projected unit credit method. Prior service cost, if any, resulting from an amendment to a plan is recognized and amortized over the remaining period of service of the covered employees. The Company recognizes its liabilities for compensated absences in accordance with ASC topic 710, "*Compensation-General*" ("ASC No. 710").

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Share-Based Compensation

The Company follows guidance under ASC topic 718, “*Compensation—Stock Compensation*” (“ASC No. 718”), which requires the recognition of stock-based compensation expense in the consolidated financial statements for awards of equity instruments to employees and non-employee directors based on the grant-date fair value of those awards. The Company recognized these compensation costs, net of an estimated forfeiture rate over the requisite service period of the award.

Income Taxes

The Company accounts for income taxes in accordance with ASC topic 740, “*Income Taxes*” (“ASC No. 740”). Under ASC No. 740, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying value of existing assets and liabilities and their respective tax basis and all operating losses carried forward, if any. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which the applicable temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates or tax status is recognized in the statement of income in the period in which the change is identified. Deferred tax assets are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

ASC No. 740 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The guidance contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with ASC No. 740. The first step is to evaluate the tax position for recognition by determining, based on the technical merits, that the position will be more likely than not sustained upon examination. The second step is to measure the tax benefit as the largest amount of the tax benefit that is greater than 50% likely of being realized upon settlement. Interest and penalties related to unrecognized tax benefits are being included in provision for income-tax expense in the consolidated statements of income.

Financial Instruments and Concentration of Credit Risk

Financial Instruments. For certain financial instruments including cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued expenses, and other current liabilities, recorded amounts approximate fair value due to the relatively short maturity periods of such instruments.

Concentration of Credit Risk. Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, time deposits, accounts receivable and derivative financial instruments. By their nature, all such financial instruments involve risks including the credit risks of non-performance by counterparties. Pursuant to the Company’s investment policy, its surplus funds are maintained as cash or cash equivalents and are invested in highly-rated mutual funds, money market accounts and time deposits to reduce its exposure to market risk with regard to these funds. Trade accounts receivable are incurred pursuant to contractual terms with customers. Credit losses on accounts receivable have not been material because of a large concentration of revenues with a small number of large, established companies. The Company evaluates the creditworthiness of its clients in conjunction with its revenue recognition processes as well as through its ongoing collectability assessment processes for accounts receivable.

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During the year ended December 31, 2009, two customers accounted for 21% and 13% respectively, of the Company's total revenues. During the year ended December 31, 2008, two customers accounted for 23% and 11%, respectively, of the Company's total revenues. During the year ended December 31, 2007, two customers accounted for 29% and 14% respectively, of the Company's total revenues.

As of December 31, 2009, two customers accounted for 19% and 17% respectively, of the Company's total accounts receivable. As of December 31, 2008, two customers accounted for 25% and 13% respectively, of the Company's total accounts receivable.

Earnings Per Share

Basic earnings per share are computed by dividing net income to common stockholders by the weighted average number of common shares outstanding during each period. In determining the income to common stockholders, net income from continuing operations has been reduced by dividends and accretion on preferred stock. Diluted earnings per share are computed using the weighted average number of common shares plus the potentially dilutive effect of common stock equivalents 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.

Any cash or in-kind dividends paid with respect to unvested shares of restricted stock and restricted stock units are withheld by the Company and paid to the holder of such shares of restricted stock, without interest, only if and when such shares of restricted stock and restricted stock units vest. Any unvested shares of restricted stock and restricted stock units are immediately forfeited without consideration upon the termination of holder's employment with the Company or its affiliates. Accordingly, the Company's unvested restricted stock and restricted stock units do not include non-forfeitable rights to dividends or dividend equivalents and are therefore not considered as participating securities for purposes of earnings per share calculations pursuant to the two-class method. However, the Company's vested restricted stock units against which the underlying common stock has not been issued, contain non-forfeitable rights to dividends or dividend equivalents and are therefore after vesting considered as participating securities for the purposes of computing basic earnings per share pursuant to the two-class method. Application of this treatment had an insignificant effect.

The following table sets forth the computation of basic and diluted earnings per share:

	Year ended December 31,		
	2009	2008	2007
Numerators:			
Net income:			
Continuing operations	\$ 15,792	\$ 11,137	\$ 17,575
Discontinued operations	(139)	3,271	9,469
	<u>\$ 15,653</u>	<u>\$ 14,408</u>	<u>\$ 27,044</u>
Denominators:			
Basic weighted average common shares outstanding	28,963,770	28,811,040	28,480,033
Dilutive effect of share based awards	454,140	401,005	711,166
Diluted weighted average common shares outstanding	<u>29,417,910</u>	<u>29,212,045</u>	<u>29,191,199</u>
Weighted average common shares considered anti-dilutive in computing diluted earnings per share	2,193,147	1,537,124	498,000

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Accumulated Other Comprehensive Income/(Loss)

ASC topic 220, "Reporting Comprehensive Income" ("ASC No. 220"), establishes rules for the reporting of comprehensive income and its components. Comprehensive income is defined as all changes in equity from non-owner sources. For the Company, comprehensive income/(loss) consists of net earnings/(loss), amortization of actuarial gain/(loss) on retirement benefits and changes in the cumulative foreign currency translation adjustments. In addition, the Company enters into foreign currency exchange contracts, which are designated as cash flow hedges in accordance with ASC No. 815. Changes in the fair values of contracts that are deemed effective are recorded as a component of accumulated other comprehensive income until the settlement of that contract. The balances of different components as of December 31, 2009 and 2008 are as follows:

	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Cumulative translation adjustments	\$ (4,977)	\$ (8,003)
Unrealized gain/(loss) on cash flow hedges, net of taxes \$566 and \$0	1,842	(6,281)
Retirement benefits, net of taxes \$136 and \$0	(380)	(207)
Accumulated other comprehensive income/(loss)	<u>\$ (3,515)</u>	<u>\$ (14,491)</u>

Recent Accounting Pronouncements

In September 2009, the Financial Accounting Standards Board (FASB) issued Update No. 2009-13, "Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force" (ASU 2009-13). It updates the existing multiple-element revenue arrangements guidance currently included under ASC topic 605-25, which originated primarily from the guidance in EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" (EITF 00-21). The revised guidance primarily provides two significant changes: 1) eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and 2) eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure requirements for revenue recognition. ASU 2009-13 will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The Company is currently assessing the future impact of this new accounting update on its consolidated financial statements.

In June 2009, the FASB issued FAS 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles," which was principally codified into ASC topic 105 "Generally Accepted Accounting Standards" (ASC No. 105). This standard will become the single source of authoritative nongovernmental U.S. generally accepted accounting principles. All existing accounting standard documents will be superseded and all other accounting literature not included in the FASB Codification will be considered non-authoritative. This guidance is effective for interim and annual periods ending after September 15, 2009. As ASC No. 105 was not intended to change existing accounting guidance, its adoption did not have an impact on the Company's consolidated financial statements.

In May 2009, the FASB issued ASC topic 855-10 "Subsequent events", which is effective for interim and annual periods ending after June 15, 2009. The guidance is intended to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date—that is, whether that date represents the date the financial statements were

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issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows. See note 18 for further details.

In April 2009, the FASB amended the authoritative guidance on financial instruments to require disclosures about fair value of financial instruments in interim as well as in annual financial statements of publicly traded companies. The guidance is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Because the guidance applies only to financial statement disclosures, the adoption did not have a material effect on the Company's consolidated financial position, results of operations or cash flows. See note 6 for further details.

In December 2007, the FASB issued new accounting guidance for business combinations. The new accounting guidance 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. The Company acquired a 100% stake in Schneider Logistics Europe S.R.O. ("Schneider SRO") on July 3, 2009. The acquisition was accounted for in accordance with this new accounting guidance. See note 5 for further details.

In December 2007, the FASB issued ASC topic 810-10-65 "Consolidation—Transition and Open Effective Date Information". ASC topic 810-10 establishes accounting and reporting standards for a non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. ASC topic 810-10-65 establishes accounting and reporting standards that require (i) the ownership interest in subsidiaries held by parties other than the parent to be clearly identified and presented in the consolidated balance sheet within equity, but separate from the parent's equity, (ii) the amount of consolidated net income attributable to the parent and the non-controlling interest to be clearly identified and presented on the face of the consolidated statements of income, and (iii) changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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3. Quarterly Financial Data (Unaudited)

Summarized quarterly results for the years ended December 31, 2009 and 2008 are as follows:

	Three months ended				
	March 31	June 30	September 30	December 31	Full Year
2009					
Revenues	\$ 40,986	\$ 42,385	\$ 48,186	\$ 59,438	\$ 190,995
Gross profit	16,630	16,558	19,383	29,035	81,606
Income from continuing operations	3,022	1,252	3,994	7,524	15,792
Income/(loss) from discontinued operations	(139)	—	—	—	(139)
Net income	\$ 2,883	\$ 1,252	\$ 3,994	\$ 7,524	\$ 15,653
Basic EPS:					
Continuing operations	\$ 0.10	\$ 0.04	\$ 0.14	\$ 0.26	\$ 0.55
Discontinued operations	\$ —	\$ —	\$ —	\$ —	\$ —
Diluted EPS:					
Continuing operations	\$ 0.10	\$ 0.04	\$ 0.14	\$ 0.25	\$ 0.54
Discontinued operations	\$ —	\$ —	\$ —	\$ —	\$ —
Weighted-average number of shares used in computing earnings per share:					
Basic	28,843,190	28,906,052	28,930,344	29,044,346	28,963,770
Diluted	29,079,675	29,159,547	29,368,390	29,932,880	29,417,910
Note:					
Stock compensation expense—Cost of revenues	\$ 301	\$ 454	\$ 341	\$ 309	\$ 1,405
Stock compensation expense—SG&A	\$ 1,238	\$ 1,520	\$ 1,535	\$ 1,395	\$ 5,688
Amortization of intangibles	\$ —	\$ —	\$ 84	\$ 83	\$ 167
2008					
Revenues	\$ 44,431	\$ 47,015	\$ 46,573	\$ 43,695	\$ 181,714
Gross profit	15,797	16,793	18,527	18,161	69,278
Income from continuing operations	4,715	2,598	374	3,450	11,137
Income/(loss) from discontinued operations	2,085	2,667	(1,450)	(31)	3,271
Net income/(loss)	\$ 6,800	\$ 5,264	\$ (1,075)	\$ 3,419	\$ 14,408
Basic EPS:					
Continuing operations	\$ 0.16	\$ 0.09	\$ 0.01	\$ 0.12	\$ 0.39
Discontinued operations	\$ 0.07	\$ 0.09	\$ (0.05)	\$ —	\$ 0.11
Diluted EPS:					
Continuing operations	\$ 0.16	\$ 0.09	\$ 0.01	\$ 0.12	\$ 0.38
Discontinued operations	\$ 0.07	\$ 0.09	\$ (0.05)	\$ —	\$ 0.11
Weighted-average number of shares used in computing earnings per share:					
Basic	28,757,077	28,799,510	28,846,137	28,839,729	28,811,040
Diluted	29,292,838	29,351,038	29,127,304	29,075,293	29,212,045
Note:					
Stock compensation expense—Cost of revenues	\$ 133	\$ 455	\$ 396	\$ 128	\$ 1,112
Stock compensation expense—SG&A	\$ 856	\$ 1,432	\$ 1,155	\$ 723	\$ 4,166
Amortization of intangibles	\$ 212	\$ 221	\$ 51	\$ 50	\$ 534

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4. Segment Information

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 operating expenses, 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.

Revenues and cost of revenues for each of the years ended December 31, 2009, 2008 and 2007, for outsourcing services and transformation services segments, respectively, are as follows:

	<u>Year ended December 31, 2009</u>			<u>Year ended December 31, 2008</u>		
	<u>Outsourcing Services</u>	<u>Transformation Services</u>	<u>Total</u>	<u>Outsourcing Services</u>	<u>Transformation Services</u>	<u>Total</u>
Revenues	\$ 152,638	\$ 38,357	\$190,995	\$ 138,770	\$ 42,944	\$181,714
Cost of revenues (exclusive of depreciation and amortization)	83,064	26,325	109,389	85,197	27,239	112,436
Gross profit	<u>\$ 69,574</u>	<u>\$ 12,032</u>	<u>\$ 81,606</u>	<u>\$ 53,573</u>	<u>\$ 15,705</u>	<u>\$ 69,278</u>
Operating expenses			57,205			53,613
Other Income / (expense)			(4,906)			(5,868)
Income tax provision / (benefit)			3,703			(1,340)
Income from continuing operations			15,792			11,137
Income/(loss) from discontinued operations, net of taxes			(139)			3,271
Net income			<u>\$ 15,653</u>			<u>\$ 14,408</u>

	<u>Year ended December 31, 2007</u>		
	<u>Outsourcing Services</u>	<u>Transformation Services</u>	<u>Total</u>
Revenues	\$ 120,907	\$ 31,126	\$152,033
Cost of revenues (exclusive of depreciation and amortization)	78,219	21,893	100,112
Gross profit	<u>\$ 42,688</u>	<u>\$ 9,233</u>	<u>\$ 51,921</u>
Operating expenses			47,107
Other Income / (expense)			11,787
Income tax provision / (benefit)			(974)
Income from continuing operations			17,575
Income from discontinued operations, net of taxes			9,469
Net income			<u>\$ 27,044</u>

5. Business Combinations, Goodwill and Intangible Assets

On July 3, 2009, the Company acquired a 100% stake in Schneider SRO, which is located in Olomouc, the Czech Republic, for a cash consideration of approximately \$3,529 (net of cash acquired of \$942), including post-closing adjustments. Schneider SRO provides complex transaction processing services to its clients in Europe and the U.S. The acquisition provides the Company with multi-lingual delivery capabilities and a cost effective delivery location in Eastern Europe.

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The Company made an allocation of the purchase price to the tangible and intangible assets and liabilities acquired, based on their fair values, including approximately \$2,062 to non-tax deductible goodwill and \$794 to intangible assets, principally customer relationships. The intangible assets are being amortized over a weighted average life of 3 years. The Company recognized acquisition related costs of approximately \$150 related to this transaction and are included in the general and administrative expenses in the consolidated statements of income.

On November 4, 2009, the Company entered into an asset purchase agreement with American Express pursuant to which the Company acquired the operations of the American Express Global Travel Service Center, a business unit of American Express located in Gurgaon, India, that provides the travel-related business process outsourcing services of American Express. American Express is an existing client of the Company. The purchase price of the transaction is approximately \$29 million, subject to certain post-closing adjustments. The purchase price was paid in cash using cash on hand and the transaction closed on March 1, 2010. See note 18 for further details.

Goodwill

Following are details of the Company's goodwill balance as of December 31, 2009:

	<u>Outsourcing Services</u>	<u>Transformation Services</u>	<u>Total</u>
Balance at January 1, 2008	\$ —	\$ 16,785	\$16,785
Goodwill arising from acquisition	987	—	987
Allocation of Goodwill to discontinued operations	(178)	—	(178)
Foreign currency translation	(37)	—	(37)
Balance at December 31, 2008	<u>\$ 772</u>	<u>\$ 16,785</u>	<u>\$17,557</u>
Goodwill arising from acquisition	2,062	—	2,062
Balance at December 31, 2009	<u>\$ 2,834</u>	<u>\$ 16,785</u>	<u>\$19,619</u>

Based on the results of its first step impairment tests performed during the year ended December 31, 2009, the Company's goodwill was not impaired. The Company makes every reasonable effort to ensure that it accurately estimates the fair value of the reporting units. However, future changes in the assumptions used to make these estimates could result in the recording of an impairment loss. In the event the Company records an impairment loss in the future, such amount will not be deductible for tax purposes.

Intangible Assets

Information regarding the Company's intangible assets is as follows:

	<u>Year ended December 31, 2009</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Customer Relations	<u>\$ 794</u>	<u>\$ (167)</u>	<u>\$ 627</u>
	<u>\$ 794</u>	<u>\$ (167)</u>	<u>\$ 627</u>

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	Year ended December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade Marks	\$ 330	\$ (330)	\$ —
Customer Relations	1,554	(1,554)	—
Non-compete agreements	1,460	(1,460)	—
	<u>\$ 3,344</u>	<u>\$ (3,344)</u>	<u>\$ —</u>

Amortization expense for the year ended December 31, 2009, 2008 and 2007 was \$167, \$534 and \$1,630, respectively. The estimated amortization of intangible assets for the years ending December 31, 2010, 2011 and 2012 is \$329, \$230 and \$68, respectively.

6. Fair Value Measurements

ASC topic 820, “*Fair Value Measurements and Disclosures*” (“ASC No. 820”) 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.

ASC No. 820 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 December 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	\$ 117,370	\$ —	\$ —	\$ 117,370
Derivative financial instruments	—	2,470	—	2,470
Total	<u>\$ 117,370</u>	<u>\$ 2,470</u>	<u>\$ —</u>	<u>\$ 119,840</u>
Liabilities	—	—	—	—

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Derivative Financial Instrument: 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 7 for further details on Derivatives and Hedge Accounting.

7. Derivatives and Hedge Accounting

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. These derivative financial instruments are largely forward foreign exchange contracts that are designated effective and that qualify as cash flow hedges under ASC topic 815, "Derivatives and Hedging" ("ASC No. 815"). The Company also uses derivatives consisting of foreign currency exchange contracts not designated as hedging instruments under ASC No. 815 to hedge intercompany balances and other monetary assets or liabilities denominated in currencies other than the functional currency.

The Company had outstanding foreign exchange contracts totaling \$90,000 and GBP 7,662 as of December 31, 2009 and totaling \$110,182 and GBP 30,320 as of December 31, 2008. The Company estimates that approximately \$1,451 of net derivative gains included in accumulated other comprehensive income could be reclassified into earnings within the next 12 months based on exchange rates prevailing as of December 31, 2009. At December 31, 2009, the maximum outstanding term of derivative instruments that hedge forecasted transactions was thirty-six months.

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 the consolidated statements of income and is included in foreign exchange gain/(loss). For hedge relationships that are 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 during the year ended December 31, 2009. For the year ended December 31, 2008, (\$995) were reclassified from AOCI into earnings because it was not probable that the forecasted transaction would occur.

The following tables set forth the fair value of the foreign currency exchange contracts and their location on the consolidated financial statements:

Derivatives designated as hedging instruments:

	December 31, 2009	December 31, 2008
Accrued expense and other current liabilities:		
Foreign currency exchange contracts	\$ —	\$ 5,411
Non-current liabilities:		
Foreign currency exchange contracts	\$ —	\$ 770
Other current assets:		
Foreign currency exchange contracts	\$ 1,451	\$ —
Other assets:		
Foreign currency exchange contracts	\$ 957	\$ —

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Derivatives not designated as hedging instruments:

	December 31, 2009	December 31, 2008
Other current assets:		
Foreign currency exchange contracts	\$ 62	\$ —
Accrued expense and other current liabilities:		
Foreign currency exchange contracts	\$ —	\$ 223

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

	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
Derivatives in Cash Flow Hedging Relationships								
Foreign exchange contracts	\$1,725	\$(15,641)	Foreign exchange gain / (loss)	\$(6,398)	\$(3,671)	Foreign exchange gain / (loss)	\$(118)	\$(3,207)
Derivatives not designated as Hedging Instruments			Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives				
Foreign exchange contracts			Foreign exchange gain / (loss)	\$220	\$2,509			

8. Fixed Assets:

Fixed assets consist of the following:

	December 31, 2009	December 31, 2008
Network equipment, cabling and computers	\$ 36,313	\$ 32,026
Buildings	1,709	1,633
Land	1,118	1,068
Leasehold improvements	13,361	11,417
Office furniture and equipment	5,264	4,180
Motor vehicles	965	888
Construction in progress	1,046	1,033
	59,776	52,245
Less: Accumulated depreciation and amortization	(35,812)	(27,727)
	\$ 23,964	\$ 24,518

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Depreciation and amortization expense excluding amortization of acquisition related intangibles for the years ended December 31, 2009, 2008 and 2007 was \$11,238, \$10,622 and \$7,582, respectively.

Construction in progress represents advances paid towards acquisition of fixed assets and the cost of fixed assets not yet ready to be placed in service. The cost and accumulated amortization of assets under capital leases at December 31, 2009 were \$500 and \$228, respectively, and at December 31, 2008 were \$447 and \$154, respectively.

9. Capital Structure

Common Stock

Prior to the Company's October 2006 initial public offering, the Company had Series A common stock and Series B common stock issued and outstanding. Holders of Series A common stock had one vote for each share held with respect to all matters voted on by the stockholders of the Company. Holders of Series B common stock did not have any voting rights. In connection with the October 2006 initial public offering all outstanding shares of Series B common stock of the Company converted automatically into shares of Series A common stock (the "Conversion"). In addition, immediately prior to the consummation of the offering, the Company increased its total authorized number of shares of capital stock and effected a two-for-one stock split (the "Stock Split"). As a result of the October 2006 initial public offering, the Company only has one class of common stock outstanding.

During the year ended December 31, 2009, the Company acquired 4,329 shares of common stock from employees in connection with withholding tax payments related to the vesting of restricted stock for a total consideration of \$39. The purchase price of \$9.08 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 year ended 2008, the Company acquired 16,541 shares of common stock from employees for a total consideration of \$246.

During the year ended December 31, 2009 and 2008, the Company purchased 5,621 and 56,849 shares, respectively, of its common stock for an aggregate purchase price of approximately \$34 and \$340 respectively, excluding commissions, representing an average purchase price per share of \$6.11 and \$5.97. These shares were purchased 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.

10. Employee Benefit Plans

The Company's Gratuity Plan 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 using the projected unit credit method. Current service costs for the Gratuity Plan are accrued in the year to which they relate. Actuarial gains or losses or prior service costs, if any, resulting from amendments to the plans are recognized and amortized over the remaining period of service of the employees.

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The benefit obligation has been measured as of December 31, 2009. The following table sets forth the activity and the funded status of the Gratuity Plan and the amounts recognized in the Company's consolidated financial statements at the end of the relevant periods:

	December 31,	
	2009	2008
Change in projected benefit obligation:		
Benefit obligation at the beginning of the year	\$ 1,101	\$ 1,239
Impact of change in measurement date	—	70
Service cost	284	308
Interest cost	115	104
Benefits paid	(139)	(257)
Divestiture	—	(211)
Actuarial loss	376	113
Effect of exchange rate changes	67	(265)
Projected benefit obligation at the end of the year	<u>\$ 1,804</u>	<u>\$ 1,101</u>
Unfunded amount—non-current	<u>\$ 1,282</u>	<u>\$ 620</u>
Unfunded amount—current	<u>\$ 522</u>	<u>\$ 481</u>
Total Accrued liability	<u>\$ 1,804</u>	<u>\$ 1,101</u>
Accumulated benefit obligation	<u>\$ 1,396</u>	<u>\$ 897</u>

Net gratuity cost includes the following components:

	December 31,		
	2009	2008	2007(a)
Service cost	\$ 284	\$ 265	\$ 322
Interest cost	115	89	49
Actuarial loss	73	136	16
Net gratuity cost	<u>\$ 472</u>	<u>\$ 490</u>	<u>\$ 387</u>

(a) Amounts include NCOP

The amount in accumulated other comprehensive loss that is expected to be recognized as a component of net periodic benefit cost over the next fiscal year is \$163. The components of accumulated other comprehensive income that has not been recognized as components of net gratuity cost in the statement of income as of December 31, 2009 is as follows:

	December 31,	
	2009	2008
Net actuarial loss	\$ 371	\$ 207
Net prior service cost	9	—
Accumulated other comprehensive loss, net of tax	<u>\$ 380</u>	<u>\$ 207</u>

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The weighted average actuarial assumptions used to determine benefit obligations and net periodic gratuity cost are:

	December 31,		
	2009	2008	2007(a)
Discount rate	6.1%	10.0%	8.7%
Rate of increase in compensation levels	8.0%	8.0%	8.0%

The Company evaluates these assumptions annually based on its long-term plans of growth and industry standards. The discount rates are based on current market yields on government securities adjusted for a suitable risk premium.

Expected benefit payments during the year ending December 31,	
2010	\$ 522
2011	\$ 576
2012	\$ 607
2013	\$ 577
2014	\$ 547
2015 to 2019	\$1,408

The Company maintains both the Exl Service Inc. 401(k) Plan and the Inductis 401(k) Profit Sharing Plan, (the "401(k) Plans") under Section 401(k) of the Internal Revenue Code of 1986 covering all eligible employees, as defined. The Company may make discretionary contributions of up to a maximum of 3% of employee compensation within certain limits. The Company's contribution to the 401(k) Plans amounted to \$171, \$342 and \$380 during the years ended December 31, 2009, 2008 and 2007, respectively.

During the years ended December 31, 2009, 2008 and 2007, the Company contributed the following amounts to various defined contribution plans on behalf of its employees in India, the Philippines and the Czech Republic. Contributions during the year ended December 31, 2009 include \$361 for employees in the Czech Republic.

Year ended December 31, 2009	\$2,378
Year ended December 31, 2008	\$1,892
Year ended December 31, 2007	\$1,694

11. Leases

The Company leases motor vehicles for certain of its employees. Such leases are recorded as capital leases. Future minimum lease payments under these capital leases at December 31, 2009 are as follows:

Year ending December 31,	
2010	\$ 162
2011	99
2012	48
Total minimum lease payments	309
Less: amount representing interest	28
Present value of minimum lease payments	281
Less: current portion	144
Long term capital lease obligation	<u>\$137</u>

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

Year ending December 31,	
2010	\$ 3,541
2011	2,824
2012	1,406
2013	1,139
2014	634
2015 and thereafter	2,329
	<u>\$ 11,873</u>

The operating leases are subject to renewal periodically and have scheduled rent increases. The Company accounts for scheduled rent on a straight line basis over the lease period. Rent expense under both cancelable and non-cancelable operating leases was \$5,854, \$5,384 and \$3,330 for the years ended December 31, 2009, 2008 and 2007, respectively. Deferred rent as of December 31, 2009 and 2008 was \$1,437 and \$1,537 respectively and are included in "Accrued expenses and other current liabilities" in the consolidated balance sheets.

12. Income Taxes

The components of income from continuing operations before income taxes consist of the following:

	Year ended December 31,		
	2009	2008	2007
Domestic	\$ 3,332	\$ (5,927)	\$ (4,084)
Foreign	16,163	15,724	20,685
	<u>\$19,495</u>	<u>\$ 9,797</u>	<u>\$16,601</u>

The income tax provision/(benefit) relating to continuing operations consists of the following:

	Year ended December 31,		
	2009	2008	2007
Current provision:			
Domestic	\$ 4,629	\$ —	\$ —
Foreign	7,474	725	2,789
	<u>\$12,103</u>	<u>\$ 725</u>	<u>\$ 2,789</u>
Deferred benefit:			
Domestic	\$ (1,596)	\$ (1,820)	\$ (1,349)
Foreign	(6,804)	(245)	(2,414)
	<u>\$ (8,400)</u>	<u>\$ (2,065)</u>	<u>\$ (3,763)</u>
Income tax benefit	<u>\$ 3,703</u>	<u>\$ (1,340)</u>	<u>\$ (974)</u>

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The effective income tax rate differs from the amount computed by applying the U.S. federal statutory income tax rate to income before income taxes approximately as follows:

	December 31,		
	2009	2008	2007
Expected tax provision	\$ 6,823	\$ 3,429	\$ 5,810
Change in valuation allowance	710	93	721
Deferred tax benefit	(2,161)	194	(3,116)
Impact of tax holiday	(3,113)	(5,728)	(4,899)
State taxes, net of Federal taxes	269	(37)	(63)
Non-deductible non-cash compensation	962	639	506
Others	213	70	67
Tax provision/(benefit)	<u>\$ 3,703</u>	<u>\$ (1,340)</u>	<u>\$ (974)</u>

The fiscal year under the Indian Income Tax Act ends on March 31. Certain facilities leased by the Company's Indian subsidiaries qualify for an exemption from corporate tax under section 10A or 10B of the Indian Income Tax Act. This exemption is available for a period of ten consecutive years beginning with the financial year in which the facility begins to manufacture or produce eligible goods and services. During the year ended December 31, 2009, the Indian government effected further amendments to the Indian Income Tax Act and extended the tax holiday for eligible units to March 31, 2011. After the expiration of the tax holiday period for some of the facilities leased by the Company's Indian subsidiaries on April 1, 2010, any profits generated from the services provided from such facilities will be fully taxable. For the years ended December 31, 2009, 2008 and 2007, the effect of the income tax holiday was to reduce the overall income tax provision and increase net income by approximately \$3,113, \$5,728 and \$4,899, respectively, and increase diluted earnings per share by \$0.11, \$0.20 and \$0.17, respectively.

The components of the deferred tax balances as of December 31, 2009 and 2008 are as follows:

	December 31,	
	2009	2008
Deferred tax assets:		
Tax credit carry forward	\$ 4,269	\$ 2,109
Depreciation and amortization	4,215	3,515
Share-based compensation	4,673	3,237
Accrued employee costs and other expenses	1,720	411
Net operating loss carry forwards	688	—
Unrealized exchange loss	498	810
Deferred rent	255	263
Allowance for doubtful debts	108	54
Others	17	59
	<u>\$16,443</u>	<u>\$10,458</u>
Valuation allowance	(2,254)	(4,010)
Deferred tax assets	<u>\$14,189</u>	<u>\$ 6,448</u>
Deferred tax liabilities:		
Intangible assets	\$ 269	\$ —
Unrealized exchange gain on cash flow hedges	566	—
Deferred tax liabilities:	<u>\$ 835</u>	<u>\$ —</u>
Net deferred tax assets	<u>\$13,354</u>	<u>\$ 6,448</u>

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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. The Company measures deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company recognizes the effect on deferred tax assets and liabilities of a change in tax rates in income in the period that includes the enactment date. The Company determines if a valuation allowance is required or not on the basis of an assessment of whether it is more likely than not that a deferred tax asset will be realized.

At December 31, 2009, the Company performed an analysis of the deferred tax asset valuation allowance for certain units of its Indian subsidiaries. Previously, the Company believed that there was uncertainty relating to the possible extension of the tax holiday for certain units and accordingly determined that it was more likely than not that the Company's deferred tax assets were not going to be utilized due to the tax holiday and possible extension of that tax holiday. Accordingly, a full valuation allowance offsetting these deferred tax assets was recorded. Due to the recent amendments of the Indian Income Tax Act mentioned above, the Company released the valuation allowance relating to those units and recognized an income tax benefit of \$4,008 in the consolidated statement of income for the year ended December 31, 2009. The Company continues to record a valuation allowance on deferred tax assets pertaining to those units of the Company's subsidiaries for which the tax holiday period is definitively extended. The valuation allowance as of December 31, 2009 and December 31, 2008 was approximately \$2,254 and \$4,010, respectively.

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 toward MAT can be carried forward and set off against future tax liabilities. In accordance with ASC topic 740 "Income Taxes" ("ASC No. 740") a deferred tax asset of \$4,269 and \$2,109 has been recognized as of December 31, 2009 and 2008, respectively with respect to such payments.

At December 31, 2009 and 2008, no deferred income taxes have been provided for the Company's share of undistributed net earnings of foreign operations due to management's intent to reinvest such amounts indefinitely. The determination of the amount of such unrecognized tax liability is not practical. Those earnings totaled \$69,449 and \$53,286 as of December 31, 2009 and 2008, respectively.

The Company's provision for income taxes also includes the impact of provisions established for uncertain income tax positions determined in accordance with ASC No. 740 as well as the related net interest. Tax exposures can involve complex issues and may require extended periods to resolve. Although the Company believes that it has adequately reserved for its uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. The Company adjusts these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters differs from the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made.

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The following summarizes the activity related to the gross unrecognized tax benefits from January 1, 2009 through December 31, 2009:

Balance as of January 1, 2009	\$ —
Increases related to prior year tax positions	—
Decreases related to prior year tax positions	—
Increases related to current year tax positions	4,060
Effect of exchange rate changes	96
Balance as of December 31, 2009	<u>\$4,156</u>

The unrecognized tax benefits as of December 31, 2009 of \$4,156, if recognized, would impact the effective tax rate.

Interest and penalties during the year ended December 31, 2009 were insignificant. The unrecognized tax benefits may increase or decrease in the next 12 months depending on the Company's tax positions.

13. Stock Based Compensation

In 2003, the Company instituted the ExlService Holdings, Inc. 2003 Stock Option Plan (the "2003 Plan"). The 2003 Plan covers all the employees of the Company and its subsidiaries. The Compensation Committee of the board of directors (the "Committee") administers the 2003 Plan and grants stock options to eligible employees of the Company and its subsidiaries. The Committee determined which employees were eligible to receive options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period for the options issued was determined on the date of the grant and was non-transferable during the life of the option. Options issued under the 2003 Plan expire ten years from the date of grant and generally vest incrementally over a period of four years from the date of grant with 25% of the options vesting each year.

Pursuant to the 2003 Plan, the Company reserved 1,600,000 shares of common stock after giving effect to the Stock Split and Conversion, for the granting of options. If an employee is terminated, they must exercise any vested options within 90 days after termination or the vested options are forfeited. On September 29, 2006, the Company decided to cease making new grants under the 2003 Plan. Grants previously made under the 2003 Plan may continue to be exercised in accordance with the terms of the 2003 Plan. As of September 29, 2006, the pool of shares available for grant under the 2003 Plan (329,854 shares of common stock) was added to the pool of available shares under the 2006 Plan (as defined below).

In 2006, the Company instituted the ExlService Holdings, Inc. 2006 Omnibus Award Plan (the "2006 Plan") which replaced the 2003 Plan. The 2006 Plan covers all the employees of the Company. Under the 2006 Plan, the Committee may grant awards of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonus awards, performance compensation awards (including cash bonus awards) or any combination of the foregoing.

The Committee determines which employees are eligible to receive the equity awards, the number of equity awards to be granted, the exercise price, the vesting period and the exercise period. The vesting period for the equity award issued is determined on the date of the grant and is non-transferable during the life of the equity award. The options expire ten years from the date of grant and generally vest incrementally over a period of four years from the date of grant with 10% vesting at the end of year one, 20% vesting at the end of year two, 30% vesting at the end of year three and 40% vesting at the end of year four. Pursuant to the 2006 Plan, the Company

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reserved 3,399,384 shares of common stock (in addition to the available pool of 329,854 shares from the 2003 plan) for the granting of equity awards. If an employee resigns or is terminated, the employee must exercise any vested options within 90 days after termination or the vested options are forfeited. At a special meeting of the Company's stockholders held on January 29, 2009, the Company's stockholders approved, among other things, an amendment to the 2006 Plan to increase the number of shares of its common stock issuable there under by 4,000,000 shares, which brought the total number of shares reserved under the plan to 7,729,238.

Effective January 1, 2006, the Company adopted guidance under ASC topic 718, using the modified prospective method of transition. Under the provisions of this guidance, the estimated fair value of share-based awards granted under stock incentive plans is recognized as compensation expense over the vesting period. Using the modified prospective method, compensation expense is recognized beginning with the effective date of adoption of this guidance for all share based payments (i) granted after the effective date of adoption and (ii) granted prior to the effective date of adoption and that remain unvested on the date of adoption.

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

	Year ended December 31,		
	2009	2008	2007
Cost of Revenue	\$ 1,405	\$ 1,112	\$ 1,118
General and Administrative expenses	3,456	2,719	2,475
Selling and Marketing expenses	2,232	1,447	714
Total	<u>\$ 7,093</u>	<u>\$ 5,278</u>	<u>\$ 4,307</u>

Effective April 1, 2007 the Indian government enacted a Fringe Benefit Tax ("FBT") on equity compensation. In July 2009, the Indian government abolished the FBT effective April 1, 2009. The FBT was calculated based 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 years ended December 31, 2009, 2008 and 2007, the Company recorded FBT expense of approximately \$179 and \$234 and \$268, respectively. The Company recovered FBT from its India-based employees, and such recovery was treated as an additional exercise price and was recorded as additional paid-in capital in the consolidated balance sheet. Because the abolition of the FBT resulted in a change in the exercise price of equity-compensation awards granted to its India-based employees, the Company was required to re-compute the fair value of the outstanding stock options and restricted stock as of the date of the modification. For the year ended December 31, 2009, the Company recognized expense of approximately \$427 as a result of such modification.

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 was estimated at the date of grant using the Monte Carlo simulation model with the following weighted average assumptions:

	Year ended December 31,		
	2009	2008	2007
Dividend yield	0%	0%	0%
Expected life (years)	4.56	5.52	6.25
Risk free interest rate	1.73%	2.43%	4.54%
Volatility	50%	39%	50%

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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.

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

	Number of Options	Weighted- Average Exercise Price	Aggregate Intrinsic Value	Weighted- Average Remaining Contractual Life (years)
Outstanding at December 31, 2006	1,642,190	\$ 10.46		
Granted	462,000	21.93		
Exercised	(293,715)	5.59		
Forfeited	(228,660)	12.40		
Outstanding at December 31, 2007	1,581,815	\$ 14.38		
Granted	469,000	16.20		
Exercised	(37,219)	10.33		
Forfeited	(224,845)	16.59		
Outstanding at December 31, 2008	1,788,751	\$ 14.67		
Granted	1,658,889	8.92		
Exercised	(66,204)	12.08		
Forfeited	(193,370)	18.13		
Outstanding at December 31, 2009	<u>3,188,066</u>	<u>\$ 11.52</u>	<u>\$ 21,999</u>	<u>7.94</u>
Vested and exercisable at December 31, 2009	<u>960,046</u>	<u>\$ 12.15</u>	<u>\$ 6,008</u>	<u>6.60</u>
Available for grant at December 31, 2009	<u>4,211,273</u>			

The unrecognized compensation cost for unvested options as of December 31, 2009, is \$8,730, which is expected to be expensed over a weighted average period of 2.52 years. The weighted-average fair value of options granted during the years ended December 31, 2009, 2008 and 2007 was \$3.52, \$6.36 and \$11.89, respectively. The total grant date fair value of options vested during the years ended December 31, 2009, 2008 and 2007 was \$3,147, \$1,815 and \$1,251, respectively. The aggregate intrinsic value of options exercised during the years ended December 31, 2009, 2008 and 2007 was \$290, \$381 and \$4,624, respectively.

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The following table summarizes the status of the Company's stock options outstanding and stock options vested and exercisable at December 31, 2009:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>		<u>Options Vested and Exercisable</u>	
	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>
\$0.12 to \$0.17	41,376	\$ 0.12	41,376	\$ 0.12
\$8.00 to \$15.00	2,533,990	9.92	758,810	11.35
\$15.01 to \$24.00	612,700	18.92	159,860	19.06
Total	<u>3,188,066</u>	<u>\$ 11.52</u>	<u>960,046</u>	<u>\$ 12.15</u>

Subsequent to December 31, 2009, the Company granted 425,450 restricted stock units to its employees and directors and 50,069 stock options to its directors.

Restricted Stock and Restricted Stock Units

An award of restricted stock is a grant of shares subject to conditions and restrictions set by the Committee. The grant or the vesting of an award of restricted stock may be conditioned upon service to the Company or its affiliates or upon the attainment of performance goals or other factors, as determined in the discretion of the Committee. The Committee may also, in its discretion, provide for the lapse of restrictions imposed upon an award of restricted stock. Holders of an award of restricted stock may have, with respect to the restricted stock granted, all of the rights of a stockholder, including the right to vote and to receive dividends.

The Committee is authorized to award restricted stock units to participants. The Committee establishes the terms, conditions and restrictions applicable to each award of restricted stock units, including the time or times at which restricted stock units will be granted or vested and the number of units to be covered by each award. The terms and conditions of each restricted stock award will be reflected in a restricted stock unit agreement.

Any cash or in-kind dividends paid with respect to unvested shares of restricted stock and restricted stock units are withheld by the Company and paid to the holder of such shares of restricted stock, without interest, only if and when such shares of restricted stock and restricted stock units vest. Any unvested shares of restricted stock and restricted stock units are immediately forfeited without consideration upon the termination of holder's employment with the Company or its affiliates. Accordingly, the Company's unvested restricted stock and restricted stock units do not include non-forfeitable rights to dividends or dividend equivalents and are therefore not considered as participating securities for purposes of earnings per share calculations pursuant to the two-class method.

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

	Restricted Stock		Restricted Stock Units	
	Number	Weighted-Average Grant Date Fair Value	Number	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2006	267,270	\$ 9.34	16,000	\$ 9.86
Granted	459,600	22.34	20,000	23.47
Vested	(77,766)	9.49	(16,000)	9.86
Forfeited	(48,394)	11.90	—	—
Outstanding at December 31, 2007	600,710	19.14	20,000	23.47
Granted	198,304	18.42	24,000	10.26
Vested	(125,883)	16.40	(20,000)	23.47
Forfeited	(94,885)	15.24	—	—
Outstanding at December 31, 2008	578,246	20.13	24,000	10.26
Granted	12,000	17.72	28,000	14.04
Vested	(157,754)	16.44	(24,000)	10.26
Forfeited	(52,682)	18.74	—	—
Outstanding at December 31, 2009	379,810	\$ 21.78	28,000	\$ 14.04

The fair value of restricted stock and restricted stock units is generally the market price of the Company's shares on the date of grant. As of December 31, 2009, unrecognized compensation cost of \$5,942 is expected to be expensed over a weighted average period of 1.81 years. The weighted-average fair value of restricted stock and restricted stock units under the 2006 Plan granted during the years ended December 31, 2009, 2008 and 2007 was \$15.14, \$17.72 and \$22.39, respectively. The total grant date fair value of restricted stock and restricted units vested during the years ended December 31, 2009, 2008 and 2007 was \$2,851, \$2,573 and \$896, respectively.

Advisory Board Options

During the year ended December 31, 2009, 2008 and 2007, the Company recorded compensation expense/(income) of \$80 and (\$70) and \$187, respectively related to stock options granted to members of the Company's 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 option-pricing model, was approximately \$1,792. Such amount is being amortized as a reduction in revenue over the five-year term of the services agreement which expired in March 2009. Amortization for the year ended December 31, 2009, 2008 and 2007 was \$60, \$358 and \$358, respectively.

14. Related Party Transactions

On January 15, 2008, the Company acquired net assets for a consideration of \$1,508 plus contingent consideration earned during the year ended December 31, 2008 of \$460 for a total of \$1,968 from a company controlled by entities related to the Oak Hill Partnerships. The Company recorded expenses of \$0, \$0 and \$2,336

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for years ended December 31, 2009, 2008 and 2007, respectively, for transition services performed by the seller prior to acquisition. The Company also recorded an acquisition related cost of \$78 during the year ended December 31, 2007. As of December 31, 2009 and December 31, 2008, the Company had no accounts payable related to these services.

The Company provides transformation services to Duane Reade Holdings, Inc., a New York City drugstore chain. Duane Reade Holdings, Inc. was indirectly owned by entities related to Oak Hill Capital Partners, one of the Company's significant stockholders. The Company recognized revenue of approximately \$537, \$628 and \$780 in the years ended December 31, 2009, 2008 and 2007, respectively, for fees and expense reimbursements from Duane Reade Holdings, Inc. At December 31, 2009 and December 31, 2008, the Company had an account receivable of \$43 and \$89, respectively, related to these services.

The Company provides services to Oak Hill Capital Partners, one of the Company's significant stockholders. The Company recognized revenue of approximately \$32, \$0 and \$0 during the years ended December 31, 2009, 2008 and 2007, respectively, for fees and expense reimbursements from Oak Hill Capital Partners. At December 31, 2009 and December 31, 2008, the Company had an account receivable of \$13 and \$0, respectively, related to these services.

15. Geographical Information

	Year ended December 31,		
	2009	2008	2007
Revenues			
United States	\$ 121,907	\$ 102,569	\$ 82,063
United Kingdom	64,697	77,806	69,527
Rest of world	4,391	1,339	443
	<u>\$ 190,995</u>	<u>\$ 181,714</u>	<u>\$ 152,033</u>
Fixed assets, net			
India	\$ 18,768	\$ 19,235	
United States	1,036	1,182	
Philippines	3,262	3,995	
Rest of world	898	106	
	<u>\$ 23,964</u>	<u>\$ 24,518</u>	

16. Commitments and Contingencies

Fixed Asset Commitments

At December 31, 2009, the Company has committed to spend approximately \$3,137 under agreements to purchase fixed assets. This amount is net of capital 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

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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 the 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 \$13,100 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.

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. The tax authorities have jurisdiction to review this arrangement and in the event that they 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 following 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 December 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 we applied to transactions between EXL India and EXL Inc. in the 2003-04 tax year was not appropriate and also disallows certain expenses claimed as tax deductible by EXL India.	\$ 2,100	\$ 2,100
Exl India	2004-05	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. for the 2004-05 tax year was not appropriate and also disallows certain expenses claimed as tax deductible by EXL India.	\$ 2,000	\$ 2,000
Exl India	2005-06	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. for the 2005-06 tax year was not appropriate and also disallows certain expenses claimed as tax deductible by EXL India.	\$ 5,200	\$1,600
Exl Inc.	2003-04	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$ 3,200	\$ 1,700
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

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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 India for 2005-06 tax year and by Exl Inc. for the 2003-04, 2004-05 and 2005-06 tax years. There is a likelihood that the Company might receive similar orders for subsequent years until the above disputes are resolved. Amounts paid as deposits in respect of the assessments described above, totaling approximately \$7,800 and \$5,800 as of December 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 competent authorities in the U.S. to invoke a Mutual Agreement Procedure, or MAP, under the United States – India Tax Treaty. As a result of commencing the MAP, the competent authorities in the U.S. will work with the competent authorities in India 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 \$2,900 in April 2009 to stop the collection of outstanding tax demands by the Indian tax authorities and interest for the assessment orders received by Exl Inc. for the 2003-04, 2004-05 and 2005-06 tax years. Subsequent to December 31, 2009, the Company also obtained bank guarantee of approximately \$3,500 with respect to the assessment orders received by Exl India for the 2005-06 tax year. If additional assessment orders are received for subsequent years, the Company may invoke the MAP for such orders and would be required to obtain additional bank guarantees.

17. 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 year ended December 31, 2008 and \$1,448 in the year ended December 31, 2009).

The following table shows the major categories for discontinued operations in the consolidated statements of income for the years ended December 31, 2009, 2008 and 2007:

	Year ended December 31,		
	2009	2008	2007
Operations:			
Revenues	\$ —	\$ 16,398	\$ 27,857
Income / (Loss) from discontinued operations	\$(180)	7,235	12,552
Income tax provision / (benefit)	\$ (41)	2,575	3,083
	<u>\$(139)</u>	<u>\$ 4,660</u>	<u>\$ 9,469</u>
Disposal:			
Loss on disposal of discontinued operations	\$ —	\$ (515)	\$ —
Income tax provision	—	874	—
	<u>\$ —</u>	<u>\$ (1,389)</u>	<u>\$ —</u>
Income / (Loss) from discontinued operations, net of taxes	<u>\$(139)</u>	<u>\$ 3,271</u>	<u>\$ 9,469</u>
Diluted earnings per share	\$ —	\$ 0.11	\$ 0.32

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18. Subsequent Events

On March 1, 2010, the Company completed the acquisition from American Express of the operations of the American Express Global Travel Service Center, a business unit of American Express located in Gurgaon, India, that provides the travel-related business process outsourcing services of American Express. The aggregate purchase price was approximately \$29 million, which was paid by the Company in cash using cash on hand.

The Company evaluated subsequent events through March 16, 2010.

PROFESSIONAL SERVICES AGREEMENT

This Professional Services Agreement (“Agreement”) is entered into as of March 7, 2006 (“Effective Date”) by and between The Travelers Indemnity Company (“Travelers”), a Connecticut corporation located at One Tower Square, Hartford, CT 06183, for itself and its affiliates (collectively, “Customer”), and ExlService Holdings, Inc., a Delaware corporation with offices at 350 Park Avenue, 10th Floor, New York, NY 10022, for itself and its subsidiary exlService.com India (Private) Limited (collectively “Supplier”).

WHEREAS, Supplier is engaged in the business of providing information technology-enabled business process outsourcing services and has qualified and experienced personnel capable of performing such services for Customer; and

WHEREAS, Customer wishes to engage Supplier to perform such services as more fully described herein;

NOW THEREFORE, in consideration of the mutual covenants set forth herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Customer and Supplier hereby agree that the Supplier will perform the services (“Services”) described below upon the terms and conditions set forth herein.

1. Definitions

“Affiliate” means any company that controls, is controlled by, or is under common control with Travelers, The St. Paul Travelers Companies, Inc. or its successor in interest. “Control” for purposes of this paragraph means ownership or control of at least twenty-five percent (25%) or more of any class of voting securities (or other ownership interests), shares or similar interests of such entity, or possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of the controlled person, whether through ownership of stock or other equity interests, by contract or otherwise. An entity that otherwise qualifies under this definition will be included within the meaning of “Affiliate” even though it acquired such status after the Effective Date of this Agreement.

“Divested Entity” means any Affiliate, or department or division or line of business of Travelers or of an Affiliate, which ceases to be an Affiliate, or department, division or line of business of Travelers or of an Affiliate due to its divestiture or other changes in its ownership or control.

“Exhibit” means any lettered Exhibit attached to this Agreement. The terms of each such Exhibit are deemed incorporated herein and in any Work Assignment entered into hereunder, unless otherwise expressly agreed in the Work Assignment.

2. Description and Scope of Agreement.

2.1 Scope of Services.

Supplier shall perform Services in accordance with one or more consecutively numbered written work assignments (each, a “Work Assignment”) entered into under this Agreement. Execution of this Agreement alone does not obligate Customer to purchase or Supplier to perform any Services in the absence of a fully executed Work Assignment. The initial Work Assignment will be executed by the parties as of the Effective Date. Subsequent Work Assignments may be executed by both parties and attached hereto. Each Work Assignment shall describe the nature of the Services to which it applies and may provide for the execution of individual Work Orders for specific Customer projects and/or lines of business. The Work Assignment, or Work Order, as applicable in any given situation, shall also specify any materials, documents or other deliverables that Supplier is to develop for and/or supply to Customer (collectively, “Work Product”); the fees and payment structure applicable to the Services; and any other details (such as, by way of example and not limitation, Customer and/or

Supplier contact information, completion criteria, governance procedures, roles and responsibilities of the parties, reporting requirements, and service levels) that Customer deems necessary to define the relevant Services and the parties' respective obligations under the Work Assignment. The first Work Assignment, Work Assignment #01, is attached hereto as Exhibit A and shall serve as a template for future Work Assignments. All Services to be performed under any Work Assignment shall be managed in accordance with Exhibit B, BPO Governance Guide, and shall be subject to Exhibit C, Disaster Recovery and Business Continuity Plans.

2.2 Scope Changes.

Should Customer wish to change the scope of a Work Assignment to alter the Service description, schedule or fees, or should Supplier determine that Supplier cannot perform in accordance with the Work Assignment due to circumstances or factors beyond Supplier's control that Supplier did not know and were not reasonably knowable at the time of Work Assignment execution or arose thereafter and increase the work effort or alter the skill set necessary for Supplier to complete the Services, the party requesting the change shall propose a change order ("Change Order") to amend the Work Assignment to address the change. The creation of a Change Order will be governed by the Change Order Process set forth in Exhibit D. No Change Order shall be binding upon either party unless executed by both parties and neither party shall have a duty to perform any obligation or make any payment that is not within the scope of the original Work Assignment in the absence of a fully executed Change Order defining such duty.

3. Confidentiality; Security.

3.1 Customer Confidential Information.

Customer Confidential Information shall mean all non-public Customer information disclosed to Supplier by Customer in whatever form presented, relating to Customer's past, present and future research, development, data processing systems, finances, operations, customers and business activities, including any information (such as, but not limited to third party software) which Customer is required to keep confidential pursuant to a nondisclosure agreement with a third party. For purposes of this Agreement, Supplier shall assume that any information that Supplier receives or accesses during the course of Supplier's performance that relates to Customer's third party licensors and consultants or to their products and services is subject to confidentiality obligations unless such information falls within one of the enumerated exclusions set forth in Section 3.4, below. Customer Confidential Information shall also include the results of Supplier's Services and Inventions (as defined herein at Section 13.1) under this Agreement. Supplier shall hold all such information in confidence and, except as authorized by Customer in writing, Supplier shall not (i) use such Customer Confidential Information except as necessary to perform the Services for the sole benefit of Customer or (ii) disclose such Customer Confidential Information to any person, at any time, either during the term of this Agreement or thereafter, other than to Supplier's employees and permitted subcontractors, if any, who are under obligations of confidentiality at least as stringent as those contained herein and who have a need to have access to and knowledge of such Customer Confidential Information for the purpose of providing Services hereunder. Supplier may not, without prior written approval from Customer, indicate in any published matter or otherwise the nature of the Services performed by Supplier under this Agreement. To the extent that Supplier prepares materials incorporating Customer Confidential Information, Supplier shall mark such materials as proprietary and confidential to Customer. Supplier shall not make use of Customer Confidential Information for its own benefit or for the benefit of third parties. Customer owns and will continue to own all right, title and interest in and to all Customer Confidential Information, including without limitation, all media used to store such information.

3.2 Confidential Data of Individuals.

- 3.2.1 Supplier acknowledges that certain Customer Confidential Information (and certain other information and data which may not otherwise meet the definition of Customer Confidential Information) to which Supplier may be exposed or may require access in order to perform the Services may include, without limitation, confidential information of Customer's former, present and prospective employees, insureds, agents, and financial and insurance services customers and/or claimants, including without limitation information identifying or personally identifiable to such individuals ("Confidential Data of Individuals"). Supplier acknowledges that such Confidential Data of Individuals may be subject to Customer's Privacy notice and to state, federal and international privacy laws, rules and regulations. Accordingly, to the extent, if any, that Supplier accesses or is exposed to any such Confidential Data of Individuals in the course of Supplier's performance, Supplier agrees (i) to maintain, and shall cause its officers, directors and employees to maintain, the confidentiality and security of such information; and (ii) to prevent the disclosure or use of such information to third parties except as may be expressly authorized or required by law. Supplier has the right to transmit, monitor, retrieve, store and use the Confidential Data of Individuals only as described in this Agreement. Customer, at its sole discretion, reserves the right to audit Supplier's access to and use of Customer Confidential Information, including Supplier's information systems security features, systems access controls and procedures, and data distribution mechanisms and practices applicable to Confidential Data of Individuals, for the purpose of verifying Supplier's compliance with its obligations under this Section; provided, however, that any such audit activities involving access to or visits to Supplier facilities shall only be after reasonable advance notice and shall be subject to Supplier's security policies including physical and information security policies. All Confidential Data of Individuals is hereby deemed included within the Customer Confidential Information.
- 3.2.2 In the event that Supplier becomes aware of any unauthorized access to, release of, or use of Confidential Data of Individuals occurring while such Confidential Data of Individuals is (i) resident on equipment owned or controlled by Supplier or (ii) otherwise in Supplier's possession or control, including, without limitation, (a) any unauthorized access, release or use occurring through a breach of Supplier's obligations under Section 3.2.1 or a breach of Supplier's data security systems and (b) any other access, release or use that is not expressly authorized by law or, pursuant to Section 3.2.1, for purposes of Supplier's performance of its obligations under this Agreement, Supplier shall, at Supplier's expense, promptly notify Customer and provide Customer with such information as Customer requires to comply with any legal obligation that Customer may have to notify anyone of such unauthorized access, release or use. In addition, Supplier shall, at Supplier's expense, comply promptly and fully with all notification requirements that apply to Supplier, including applicable requirements, if any, to notify the individuals whose data may have been accessed, released or used, whether imposed by national, international, state, or local law, and shall indemnify Customer against all loss, cost, damage or expense (including, without limitation, attorneys' fees and fines or penalties imposed by law) arising out of Supplier's failure to comply with the notice provisions of this Section 3.2.2, provided that such indemnification obligation shall not apply, and Customer shall bear all of Supplier and Customer's expenses of complying with the notice provisions of this Section 3.2.2 in the event that the unauthorized access, release or use of Confidential Data of Individuals was caused by an act of Customer or of Customer's employees.
- 3.2.3 The provisions of this Section 3.2 shall extend to any Supplier subcontractor receiving Confidential Data of Individuals from Supplier and Supplier will remain liable for its subcontractors' compliance therewith. Prior to supplying any Confidential Data of Individuals

to any subcontractor, Supplier shall have in place with such subcontractor a written contract containing provisions at least as stringent as those set forth herein with respect to the Confidential Data of Individuals, including a provision that makes Customer a third party beneficiary with direct enforcement rights against the subcontractor in the event of a breach of the terms applicable to the Confidential Data of Individuals.

3.3 Supplier Confidential Information.

Should Supplier, in the course of its performance, disclose to Customer (i) non-public information regarding Supplier's clients, vendors, prices, plans, service offerings, operations, or strategies or (ii) other, proprietary information that Supplier has designated in writing as "Confidential" (collectively, "Supplier Confidential Information") Customer shall hold such Supplier Confidential Information in confidence. Except as authorized by Supplier in writing, Customer shall not disclose such Supplier Confidential Information to any person other than Customer's employees, agents or consultants who have a need to know in order to perform obligations for Customer. Subject to any licenses granted to Customer herein, Supplier owns and will continue to own all right, title and interest in and to all Supplier Confidential Information.

3.4 Exceptions.

Notwithstanding the foregoing provisions of this Section 3, either party shall be free to use its general knowledge, skills, and experience and any general ideas, concepts, know-how and techniques learned by its employees during the performance of the Services pursuant to this Agreement and retained in intangible form in their unaided memories.

3.5 Exclusions.

Confidential Information of a party does not include, and neither party is obligated to protect (i) information that is in the public domain other than as a result of a breach of this Agreement by the receiving party hereunder, or is designated by agreement of the parties to be placed into the public domain; (ii) information which the receiving party can demonstrate that it developed independently without reference to the disclosing party's Confidential Information; or (iii) information already known to or in the possession of the receiving party prior to disclosure under this Agreement but not obtained improperly or illegally. If a receiving party becomes legally compelled (by applicable law or regulation or by deposition, interrogatory, request for documents, order, subpoena, civil investigative demand or similar process issued by a court of competent jurisdiction or by a government body) to disclose any of the Confidential Information, the receiving party shall provide the disclosing party prompt prior written notice of any such requirement so that the disclosing party may seek a protective order or other appropriate remedy and/or waive compliance with the terms of this Agreement. In the event that the disclosing party does not obtain such protective order or other remedy, and irrespective of whether the disclosing party waives compliance with the provisions hereof, then the parties agree that the receiving party will only disclose that portion of the Confidential Information which the receiving party's counsel advises the receiving party that it is legally required to disclose.

3.6 Return of Information.

Within ten (10) days of an express request, or within ten (10) days of termination of this Agreement, the receiving party shall return all of the disclosing party's Confidential Information received under this Agreement, including all copies or partial copies thereof in any form or format. Alternatively, if the disclosing party consents in writing, the receiving party may destroy such information and provide the disclosing party with a written certification of its destruction.

3.7 Security.

Supplier will maintain environmental security, technical security, physical security, administrative procedures and other safeguards against the destruction, loss or alteration of Customer Confidential Information in the possession of Supplier that are no less rigorous than: (i) the most rigorous data security policies and procedures generally in effect as of the Effective Date at Supplier's facilities; (ii) the safeguards required to meet current insurance, financial services and information technology industry expectations for the provision of Services; (iii) the safeguards required by law, rule or regulation; and (iv) Customer's information security policies and standards as provided to Supplier, and any other safeguards required to meet any higher reasonable standard otherwise requested by Customer. Supplier will not modify, delete or destroy any Customer Confidential Information or media on which it resides without prior written consent from Customer, provided that ordinary backup activities, data destruction consistent with data retention and destruction policies, and other data management activities consistent with prudent commercial practices will not be deemed a violation of this sentence. Supplier will: (i) adequately mark all Customer Confidential Information as Customer property, (ii) store all Customer Confidential Information separately from either Supplier's data and information or data and information owned by other clients of Supplier, and (iii) promptly remove any or all of the Customer Confidential Information, as specified by Customer, from all Supplier-maintained databases, hardware, and network equipment at Customer's request in a manner specified by Customer. Without limiting the foregoing, Supplier will comply with the security and data policies and procedures set forth in Exhibit E, Information Security Policies and Standards.

3.8 Remedies.

Each party acknowledges that its breach of any of the provisions of this Section 3 could cause the other party irreparable injury for which monetary damages may not provide an adequate remedy. Therefore, in the event of a party's breach or threatened breach of any of its confidentiality obligations under this Agreement, the other party shall have the right to seek an immediate injunction to prevent or restrain the breach, in addition to any other remedies available at law or in equity.

4. Use of Names and Marks; Publicity.

Supplier may not use any of Customer's names, service marks, logos or trademarks or any likenesses or facsimiles thereof in any advertisements, brochures or catalogs or on any Internet site or otherwise without the express written consent of Customer, which shall have the right to review and approve in advance the specific form and content of such use. Supplier will not make any media releases, public announcements, or public disclosures relating to this Agreement (except to the extent required by law) without Customer's prior review and written approval prior to release.

5. Independent Contractor; Personnel.

5.1 General.

Supplier shall perform the Services hereunder as an independent contractor. Neither party shall have authority to contract for the other party, bind the other party to any commitment or obligation or assume any liabilities of any nature in the other party's name unless otherwise agreed in writing. Nothing herein shall be construed as creating a partnership, joint venture, or employment relationship between Customer and Supplier. Supplier will determine the manner in which it will perform its Services. Supplier may utilize subcontractors in performing Services hereunder with prior notice to Customer and Customer's prior written consent provided that (i) vendors who are engaged by the Supplier independently of Supplier's relationship with Customer to provide support for Supplier's general operations (e.g., to provide building maintenance, generic help desk support, or telecommunications equipment service) and not to perform Services under a Work Assignment shall not be subject to the prior consent conditions mentioned in this Section 5.1. and (ii) Supplier retains full responsibility for the work of all persons performing services or fulfilling obligations required of

Supplier under this Agreement, whether such persons are employees of Supplier or of its affiliates or subsidiaries or of subcontractors, as though all such persons were Supplier's employees. Supplier shall be deemed the sole employer of all individuals performing the obligations of Supplier hereunder. Permitted subcontractors who will perform Services under Customer Work Assignment must agree in writing before beginning work to be bound by the terms and provisions of this Agreement, including those relating to confidentiality, ownership, indemnification and liability. Supplier will make Customer an express third party beneficiary in all such subcontractor agreements. Supplier employees and subcontractors shall have no rights or entitlements to any compensation or benefits from Customer. Only Supplier shall have the right to hire and fire its employees, provide instructions as to the manner in which an employee performs his or her job and set the hours of work of its employees. In addition, Supplier shall manage all employment aspects of any assigned employees, including, without limitation, terminations, salary reviews, performance evaluations, work schedules, orientation, placement, and rotation of assignments. Supplier shall, with respect to its assigned employees, be responsible for withholding all taxes and making all legally-required payments, if any, including those for federal, state and local income taxes, Social Security taxes, and unemployment insurance, and maintaining workers' compensation insurance coverage in an amount and under such terms as required by applicable law. Supplier assumes all risk in connection with the adequacy of any comprehensive general liability, workers' compensation or other insurance on behalf of Supplier or its employees.

5.2 Pre-employment Screening and Background Checks.

Supplier will conduct pre-employment screening of each person who will perform any Services on behalf of Customer under this Agreement. Pre-employment screening will include, without limitation, establishing and documenting proof of identity of each such person and ensuring that each such person is legally qualified to work and receive compensation in each country in which such person will be engaged in the performance of Services for Customer (in the case of any person already employed or under contract with Supplier, an equivalent screening shall be conducted prior to such person's assignment to perform any Services under this Agreement). Supplier shall not assign any person to perform Services on behalf of Customer if Supplier knows or has reason to know that such person has misrepresented his or her identity or employment qualifications or is not legally eligible to work and receive compensation in the location where Supplier would assign such person to work. In addition, Supplier shall conduct a criminal background check of each person described in this paragraph. For purposes of this provision, a "criminal background" shall mean any conviction of a crime involving breach of trust or dishonesty including, by way of example and not limitation, any theft or misappropriation of funds, data, or other tangible or intangible property, whether by fraud, forgery, unauthorized entry, or other means. Supplier shall not assign any person to perform Services on behalf of Customer if Supplier knows or has reason to know that such person has a criminal background. Supplier shall retain records of pre-employment screenings and background checks and make such records available for Customer review at reasonable times with reasonable notice. Customer shall have the right to review such records twice each year, and to request reviews at other times in Customer's good faith discretion.

5.3 Drug Policy.

Supplier agrees to support Customer's drug abuse policy which prohibits persons performing Services at any Customer premises from selling, distributing, manufacturing, processing, using or being under the influence of illegal drugs or illicit narcotics (non-prescriptive medication) as defined by the laws or regulations of the jurisdiction in which such Services are performed. Supplier agrees to advise every person who will perform Services under this Agreement at a Customer location of this policy and to explicitly instruct all such persons to comply herewith.

5.4 Qualifications; Number; Turnover.

Without limiting any other provisions of this Agreement, Supplier will assign the number of its personnel in appropriate job classes and with appropriate skills, as necessary to perform the Services in accordance with this Agreement, including the Service Levels specified in any applicable Work Assignment or Work Order. As of the Effective Date, the number and types of Supplier personnel initially assigned to provide the Services shall be as outlined in the first Work Assignment or first Work Order thereunder. Supplier agrees that, for all Services, except to the extent, if any, otherwise specified in a Work Assignment or Work Order, Supplier will assign at least one full-time equivalent resource for each *** person-hours of work to be supplied in any given month. Supplier warrants that the personnel it assigns to perform the Services will be properly educated, trained, and qualified for the Services that they are intended to perform. It is Supplier's policy to request personnel who are sent overseas for training for a period of *** to *** weeks to remain in Supplier's employ for a minimum of *** months and, for those in training overseas for more than *** weeks, a period of *** months. Supplier agrees to continue to apply this policy to minimize the turnover of trained personnel that it assigns to provide Services under this Agreement, provided that this commitment shall not be construed in any way as superseding other Supplier policies under which such Supplier personnel are eligible for promotion or advancement opportunities. Nor shall Supplier be obligated to continue this policy to the extent, if any, that it is deemed to be in violation of any law or regulation applicable to Supplier's employment practices. Subject to replacement necessitated by attrition or circumstances beyond Supplier's control, in no event will Supplier remove or replace more than *** of the personnel assigned by Supplier to perform Services during any calendar year of the term of this Agreement except at Customer's request or with Customer's prior consent.

5.5 Replacement.

Notwithstanding the provisions of Section 5.4, above, should Customer request replacement of any Supplier employee or subcontractor for any reason, such as but not limited to incompetence, nonperformance, breach of a Supplier obligation under this Agreement or noncompliance with Customer policies, Supplier shall remove such individual and make commercially reasonable efforts to replace such individual with a qualified replacement acceptable to Customer in a timely fashion. Customer shall not be liable to Supplier for any costs to Supplier associated with removal or replacement or for fees attributable to Services performed by the replacement during any period when such replacement is in training or is otherwise not yet qualified to perform at the level of experience and skill designated for the Services assigned. Unless otherwise instructed by Customer, Supplier will immediately remove any Supplier personnel or subcontractor who commits any criminal act or grossly negligent act or engages in any willful misconduct.

5.6 Key Personnel.

Each of the initial Supplier Key Personnel will be designated and will have the functions assigned to that designation in the Work Assignment or Work Order. Key Personnel will at all times include, at a minimum, the Supplier Relationship Manager and every management level resource assigned by Supplier to spend more than fifty percent (50%) of his or her working time providing Services to Customer unless otherwise agreed in a Work Assignment. Supplier may not remove (except for termination for cause) any Key Personnel from providing Services for Customer during the first six (6) months after either the Effective Date or the Go-Live Date for the Work Assignment or Work Order Services, or the start of the Disentanglement process described in Section 19.6. If Supplier desires to remove or replace any Key Personnel (to the extent permitted herein), Supplier will (i) provide Customer with ninety (90) days prior written notice, (ii) provide for a knowledge transfer period of no less than sixty (60) days during which the Key Personnel to be replaced and the designated replacement(s) are simultaneously assigned to provide Services, and (iii) submit to Customer for its review and approval a transition plan outlining all actions that Supplier will take to ensure sufficient knowledge transfer between the Key Personnel being replaced and the replacement

to avoid any adverse impact on the Services. Customer may interview and participate in the selection of such replacement. Whether or not Customer conducts an interview or participates in such selection, Supplier will not hire, assign or designate any such replacement as Key Personnel without Customer's prior written consent, which may be given or withheld in Customer's sole discretion. If any member of Supplier Key Personnel becomes incapacitated, voluntarily terminates employment, is terminated for cause, or is transferred with the consent of Customer, Supplier will within forty-eight (48) hours replace such person with another person approved by Customer that is at least as well qualified. All Supplier Key Personnel will be assigned to perform Services on a full-time basis for terms of at least two (2) years. Supplier will create and maintain an individual compensation structure for all Key Personnel that provides them incentives to meet or exceed all Service Levels under this Agreement.

5.7 Agreements.

Supplier has and will obtain written agreements with its employees and permitted subcontractors sufficient to allow it to perform its obligations under this Agreement, including assignments and licenses of intellectual property, and confidentiality obligations.

6. Compliance with Laws.

Supplier agrees to comply with all applicable federal, state, county and local laws, ordinances, regulations and codes, both domestic and international, in the performance of its obligations under this Agreement, including but not limited to the procurement of permits, licenses and certificates where required and payment of applicable taxes and related fees. Supplier represents that Supplier has not been convicted of or indicted for any criminal offense and has not been excluded, suspended or debarred from participation in any activities by any governmental or regulatory body.

7. Export.

Supplier hereby represents that it is, and will remain in compliance with the requirements of all applicable export laws and regulations, including but not limited to the U.S. Export Administration Regulations and International Traffic in Arms Regulations. Such requirements include, but are not limited to, obtaining all required authorizations or licenses for the export or reexport of any controlled item, product, article, commodity, software or technology. Without limiting the generality of the foregoing, Supplier hereby represents that (i) it has not been, and is not currently, debarred, suspended or otherwise prohibited or restricted from exporting, re-exporting, receiving, purchasing, processing or otherwise obtaining any item, product, article, commodity, software or technology regulated by any agency of the United States; and (ii) Supplier will not export or reexport, directly or indirectly, any software or technology received from Customer or allow the direct product thereof to be exported or re-exported, directly or indirectly, to any country, organization or person to which or to whom such export or reexport would be in violation of United States laws or regulations.

8. Compliance with Policies.

- 8.1 Supplier warrants that in performing the Services Supplier shall comply with all applicable guidelines, standards and practices established by Customer and made known to Supplier with respect to, but not necessarily limited to conduct on site within Customer's facilities; the protection of Customer data, intellectual property and other assets, if any, used and/or accessed by Supplier personnel; Customer's internal security procedures with respect to Customer's facilities and computer systems; and Customer's Code of Business Conduct and Ethics for employees, Exhibit F (which Supplier will comply with concerning its personnel).
- 8.2 Should Customer personnel visit on site at any Supplier facility, Customer shall be responsible for ensuring that such personnel comply with guidelines, standards and practices established by Supplier for such facility and made known to Customer with respect to, but not necessarily limited to conduct within Supplier's facility and Supplier's internal security procedures with respect to Supplier's facilities and computer systems.

9. Insurance; Records Audits.

9.1 Insurance.

At all times during its performance of Services hereunder, Supplier will maintain levels and types of insurance as set forth in Exhibit G, Insurance Requirements.

9.2 Records and Audits.

At all times during its performance of Services hereunder, Supplier will follow the Records and Audit Procedures set forth on Exhibit H.

10. Invoicing and Payment.

10.1 Invoices.

Supplier shall invoice Customer for Services in accordance with the fees and payment structure set forth in the Work Assignment. Invoices shall include sufficient detail to permit Customer to identify the personnel and the Services performed against the Work Assignment. Overtime charges shall not apply. Supplier shall not invoice Customer for fees in excess of the rates and/or aggregate cap specified in the Work Assignment. All invoices shall be subject to review, approval and acceptance by Customer prior to final payment. In the event that Customer disputes any amount indicated on an invoice, Customer will notify Supplier of the amount in dispute and the basis for the dispute upon Customer's discovery of the dispute and pay all undisputed portions of the invoice in accordance with this Section. Customer and Supplier shall cooperate in good faith to resolve any invoice dispute in a timely fashion. Unless otherwise indicated in the applicable Work Assignment or Work Order, payment of all undisputed amounts shall be due within *** days of invoice receipt without deduction, counterclaim or set-off.

10.2 Taxes.

Customer shall pay all domestic state, local, and federal sales or use taxes applicable to the Services exclusive of Supplier's property taxes, taxes based on Supplier's income, and any foreign international taxes due imposed because of Supplier's activities outside the United States. Supplier shall itemize applicable taxes on the invoices to which they apply. No payment for such taxes will be required until Supplier satisfies this condition. Supplier shall notify Customer in writing within ten (10) days of any state tax audit that could create a Customer obligation to pay additional taxes hereunder. Failure of Supplier to notify Customer shall release Customer of any obligation to pay any additional taxes, penalties or interest assessed as a result of such audit. In the event that the imposition of any new tax or any amendment to an existing tax law causes Supplier's net tax liability for all taxes (other than taxes on Supplier's income) that Supplier would be obligated to pay in connection with Supplier's performance of the Services to increase by more than five percent (5%) over the Supplier's net tax liability as measured across all Work Assignments and Work Orders then in effect, then, at Supplier's request, Customer and Supplier will negotiate in good faith to determine whether, and, if so, how the increase in tax liability should be shared between the parties. Customer shall not be liable for and shall have no obligation to pay any penalties, interest, or late charges imposed as a result of Supplier's failure to pay taxes on a timely basis if Customer has made timely payment to Supplier for taxes due from Customer, in accordance with Supplier's invoices.

10.3 Travel and Other Expenses.

Customer shall not reimburse Supplier for travel or for other expenses unless specifically authorized by Customer in writing, either in a Work Assignment or on a case-by-case basis in response to specific requests, and incurred by Supplier in the performance of the Services. All travel expenses

authorized for reimbursement shall be consistent with Customer's corporate travel expense policy for its own employees. If Supplier's business location is within a fifty (50) mile radius of the location where Services are provided, the Supplier will not be reimbursed for any travel, meals or lodging expenses. All other expense associated with providing the Services, such as telephone, office supplies, and support services are the responsibility of Supplier. Time spent traveling is not billable. If any expenses are authorized by Customer for reimbursement, Supplier shall list such expenses separately on its invoice once actually incurred and shall provide supporting documentation for the invoiced amounts.

11. General Warranties.

11.1 Authority.

Each party represents that it is authorized, empowered and able to enter into and fully perform its obligations under this Agreement.

11.2 Warranty and Acceptance.

Supplier warrants that all Services shall be performed in a professional and workmanlike manner, in accordance with applicable industry standards and the acceptance criteria, if any, set forth in the Work Assignment. Customer reserves the right to reject any Services that do not conform to this warranty. In the event of such rejection, Supplier shall promptly reperform the Services or supply additional services to correct the deficiencies to Customer's reasonable satisfaction at Supplier's expense, in accordance with the acceptance standards and remedy provisions of the applicable Work Assignment. Alternatively, at Customer's election, unless otherwise specified in the applicable Work Assignment, Customer shall have the right to receive a refund of any amounts paid for such Services and shall have no further payment obligation with respect to the Services. Payment for Services shall not constitute acceptance of the Services.

11.3 Third Party Materials.

Supplier warrants that unless Supplier obtains Customer's prior written approval, in performing the Services Supplier will not use any third party materials, including but not limited to any software or work subject to an open source license (including the GNU Public License) or any "copyleft" restrictions ("Third Party Materials"): (i) to which a license is required in order to use any Deliverables; (ii) the terms of which impose any restrictions on the use of any Deliverables; or (iii) the terms of which in any way limit Customer's intellectual property rights in any Work Product. If Supplier obtains Customer's approval as set forth above, Supplier will clearly identify in the Work Assignment all Third Party Materials and Customer's need and responsibility to license such software prior to Supplier's inclusion of the software in the Work Product.

12. Software Warranties.

The following warranties shall apply to software code, if any ("Software Product"), delivered to Customer by Supplier under this Agreement or Work Assignment.

12.1 Warranty of Date Compatibility.

Supplier warrants that any Software Product as delivered pursuant to this Agreement will correctly employ century specific date logic, alone and in combination with other hardware and software with which the Software Product is intended to be compatible, to provide fault-free performance in the processing of dates and date-related data, including in calculation, comparison and sequencing processes. Such fault-free performance shall include the manipulation of data with dates prior to, through, and subsequent to January 1, 2000. Software Products delivered hereunder shall successfully transition into the Year 2000 with the correct system date, without human intervention, shall perform leap year calculations correctly and shall provide correct results when moving forward and backward in time from January 1, 2000.

Supplier shall (i) correct or replace any Software Product that does not conform to this warranty, at its own cost and expense, and (ii) indemnify Customer against all loss, cost, damage and expense arising out of Supplier's breach of this warranty.

12.2 Software Lockup and Disabling Devices.

Notwithstanding any other provision of this Agreement, Supplier warrants that the Software Products do not contain any intentionally installed lockup program or device, including any such item that may prevent Customer from accessing its data and information in unencrypted form with all data structures preserved (Lockup Device). Supplier further agrees that it will not, under any circumstances including enforcement of a valid contract right, install or trigger a Lockup Device that in any manner interferes with Customer use of the Software Products and/or restricts Customer from accessing its data files or in any way interferes with the transaction of Customer business. Supplier shall assist Customer in removing any Lockup Device in the Software Products and in restoring the performance of Customer systems to the level at which the systems were performing before the introduction of the Lockup Device, at no additional cost to Customer.

Supplier also warrants that Supplier tests or protects the Software Products against viruses, Trojan horses, trap doors and similar devices that could disrupt or disable a computer system or any of its components and that, to the best of Supplier's knowledge, the Software Products, as delivered, contain no such devices ("Disabling Devices.") Supplier shall assist Customer in removing any Disabling Device identified in the Software Products and in restoring the performance of Customer systems to the level at which the systems were performing before the introduction of the Disabling Device, at no additional cost to Customer.

13. Ownership of Work Product.

13.1 Supplier hereby agrees that the Work Product and all inventions, discoveries, improvements, specifications, source code, object code, programming and other documentation, designs, methods, devices, systems, computer software, writings, compilations of information or data, and/or materials that are protectable as intellectual property, whether under the laws of patents, copyrights, and/or trade secrets, (hereinafter referred to in the aggregate as "Inventions") that are conceived, designed, practiced, prepared, produced or developed by it, either alone or in concert with others:

- (i) in the course of its engagement hereunder,
- (ii) based upon knowledge or information learned or gained from Customer, or
- (iii) that results from the use of Customer facilities, personnel, or materials, are and shall be the sole and exclusive property of Customer.

13.2 Supplier hereby assigns and agrees to assign all right, title and interest (including all intellectual property rights) in and to the Work Product and all Inventions to Customer, and agrees that it will execute all documents necessary to irrevocably assign and transfer to Customer, or its nominees, successors, or assigns, free of encumbrances, all rights, title, and interest in and to the Work Product and in and to any and all Inventions. Supplier also shall cause all subcontractors and all individuals engaged in the performance of Supplier's obligations hereunder to irrevocably transfer and assign to Customer, all right, title and interest (including all intellectual property rights) in and to such Work Product. All such assignments shall include, among other things, existing or prospective patent rights and copyrights in the United States and all foreign countries. To the extent allowable by law, Supplier waives, and shall cause all subcontractors and other individuals engaged in the performance of

Supplier's obligations hereunder to waive all moral rights related to the Work Product. Supplier shall cooperate with and assist Customer, at Customer's expense but without any additional compensation, and shall cause all individuals engaged in the performance of Supplier's obligations hereunder to cooperate with and assist Customer, in evidencing, establishing, maintaining and protecting Customer's rights in and ownership of the Work Product, including by executing any assignments, patents applications or other documents reasonably requested by Customer.

- 13.3 If any of the Work Product or any of the Inventions constitutes a work based upon one or more preexisting works, Supplier shall ensure that each Work Assignment relating to Supplier's Services in connection with the development and/or delivery of such Work Product and/or Invention(s) so indicates by references to (i) the nature of such preexisting work; (ii) its owner; (iii) any restrictions or royalty terms applicable to Supplier's use of such preexisting work or Customer exploitation of the Work Product and/or Invention(s); and (iv) the source of Supplier's authority to employ the preexisting work in connection with its development and/or delivery to Customer of the Work Product and/or the Invention(s). Unless otherwise specifically agreed in the applicable Work Assignment, before initiating the preparation of any Work Product or any Invention that is a derivative work of a preexisting work, Supplier shall cause Customer, its successors and assigns, to have and obtain the irrevocable, nonexclusive, worldwide, royalty-free right and license to (i) use, execute, reproduce, display, perform, distribute internally and externally, sell copies of, and prepare derivative works thereof, and (ii) authorize or sublicense others from time to time to do any or all of the foregoing.
- 13.4 Notwithstanding Section 13.3, unless otherwise stated in the Work Assignment, to the extent that the Work Product is a Software Product consisting of an existing, commercially available Supplier proprietary software tool or application delivered or made accessible to Customer solely to facilitate the business process services to be provided under the Work Assignment, the license granted to Customer for such Software Product shall be for Customer's internal business purposes only. The terms of this Agreement shall supersede any conflicting or more restrictive terms in any shrink wrap or electronic license provisions accompanying such Software Product.
- 13.5 Supplier agrees to execute all instruments, declarations, or other documents required to be filed with any applications for Letters Patent or applications for the registration of copyrights that Customer desires to file in the United States or in foreign countries when the subject matter of such applications includes any Work Product and/or Inventions within the scope of this Agreement. Supplier further agrees to supply all information to and cooperate with Customer with respect to the filing and prosecution of all applications for Letters Patent and applications for the registration of copyrights in the United States and in foreign countries. Supplier further agrees to do all other lawful acts that are reasonably necessary in respect to such applications without expense to itself or charge to Customer. All items provided to Customer that qualify as Customer' property shall be marked as follows:
"Copyright© 2006 by The Travelers Indemnity Company. All Rights Reserved."
- 13.5 Notwithstanding the foregoing, nothing herein shall be construed as giving Customer any ownership rights or ownership interests in any material that Supplier has developed prior to and/or independently of Supplier's performance of Services for Customer and without reference to Customer Confidential Information. Nor shall the provisions of this Agreement be construed as restricting Supplier from performing similar Services for other clients as long as Supplier does not disclose or use any Customer Confidential Information in such performance.

14. Indemnification.

14.1 Losses.

Each party (“Indemnifying Party”) agrees to defend, indemnify and hold the other party, its Affiliates, and their directors, officers and employees harmless from any loss, cost, expense (including attorneys’ fees), damage or liability resulting from any action brought or threatened against the other party, its directors, officers or employees (“Indemnified Party”) that is based on, arising out of or relating to or resulting from:

- (i) any act or omission by an agent, contractor, subcontractor, consultant, or employee of the Indemnifying Party which results in, or is intended by such agent, contractor, subcontractor, consultant, or employee to result in unauthorized access into any of the Indemnified Party’s systems, data, or technology, or unauthorized release or use of the Indemnified Party’s Confidential Information; and/or
- (ii) injuries of any kind claimed against the Indemnified Party by anyone, including but not limited to personal injury, death, property damage and theft, arising out of or resulting from the Indemnifying Party’s acts or omissions or those of persons furnished by it, its agents or subcontractors; and/or
- (iii) any breach of the duty of good faith and fair dealing, or bad faith, or fraudulent, malicious, or dishonest acts by the Indemnifying Party acting alone or in collusion with others during the term of this Agreement.

In addition, Supplier shall defend, indemnify, and hold Customer harmless from any loss, cost, expense (including attorneys’ fees), damage or liability resulting from any action brought or threatened against Customer, its directors, officers or employees that is based on, arising out of or relating to or resulting from:

- (i) any breach of Supplier’s Software Lockup and Disabling Devices warranty contained herein, including (a) any costs or damages incurred by Customer as a result of any such Software Lockup and Disabling Devices; (b) any data loss which results from such item if present in the Services or Work Product when delivered to Customer; and (c) the cost of debugging any Software Lockup and Disabling Devices and cost of alternative provision of Services while debugging is under way; and/or
- (ii) any act or omission by Supplier arising out of or relating to all applicable federal, state, county and local laws, ordinances, regulations and codes, both domestic and international, in the performance of its obligations under this Agreement, including but not limited to the procurement of permits, licenses and certificates where required and payment of applicable taxes and related fees; and/or
- (iii) any assessment, tax, or penalty against Customer that is an obligation of Supplier or which relates to compensation paid by Supplier to workers who perform Services for Customer; and/or
- (iv) any claim by workers supplied by Supplier or its subcontractors with respect to any employee benefit programs maintained by Customer.

14.2 Indemnification Procedure.

The Indemnified Party will promptly notify the Indemnifying Party in writing of the claim or loss subject to the indemnification obligation, provided however, that any delay in providing such notice shall not excuse the Indemnifying Party’s performance of its indemnification obligation unless the delay prejudices the Indemnifying Party in its defense or settlement of the claim. The Indemnified Party will allow the Indemnifying Party to control the defense and reasonably cooperate with the Indemnifying Party in the defense and any related settlement negotiations at the Indemnifying Party’s expense. In addition to any defense provided by the Indemnifying Party, the Indemnified Party may

retain at its expense its own counsel. If the Indemnifying Party does not promptly assume the defense against such claim or loss, the Indemnified Party reserves the right to undertake its own defense at Indemnifying Party expense.

15. Infringement Indemnification.

Supplier agrees to defend, indemnify and hold Customer and its directors, officers and employees harmless from any loss, cost, expense, damage or liability resulting from any action brought or threatened against Customer or its directors, officers or employees based on an allegation that the Services, the Work Product or their use of the same infringes a patent, copyright, trademark, service mark or other proprietary right of any third party or constitutes misuse or misappropriation of a trade secret of any third party. Customer shall notify Supplier of such action and give Supplier authority, reasonable information and assistance (at Supplier's expense) for the defense of such suit or proceeding. Supplier will pay all damages awarded therein against Customer or its officers, directors, employees or agreed upon by Supplier in settlement of the claim. In the event that Customer is deprived of its use and/or ownership of any Work Product or Service that is subject to this provision, Supplier shall (i) obtain the right for Customer to continue the use of the affected Work Product or Service or (ii) replace or modify the affected Work Product or Service to render it non-infringing while retaining like capability. If neither of the foregoing is practicable for Supplier to complete within a time frame acceptable to Customer, Customer may return the affected Work Product and receive a full refund of all fees paid for such Work Product. Supplier's obligation to indemnify and defend Customer and its directors, officers and employees extends to and includes any modified Services and Work Product or replacement Services and Work Product that Supplier provides to Customer to overcome or avoid any infringement claims. Supplier shall not settle any such matter in a way that might negatively affect Customer without Customer's prior written consent (not to be unreasonably withheld).

16. DISCLAIMER OF CERTAIN DAMAGES.

IN NO EVENT WILL EITHER PARTY BE LIABLE TO THE OTHER PARTY FOR ANY PUNITIVE, INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGES OF ANY KIND IN CONNECTION WITH THIS AGREEMENT, EVEN IF THE PARTY WHO IS LIABLE HAS BEEN INFORMED IN ADVANCE OF THE POSSIBILITY OF SUCH DAMAGES. The foregoing shall not apply to or limit either party's (i) indemnification obligation under any indemnification provision of this Agreement, (ii) liability for a breach of any confidentiality obligation under this Agreement, or (iii) liability for direct damages which either party and its directors, officers and employees may suffer or be required to pay arising out of injuries to persons (including death) or physical damage to property resulting from the negligence or willful misconduct of the other party, its employees or subcontractors, or, either party's liability on account of the gross negligence or willful misconduct of that party.

17. Direct Damages.

The parties agree that the following shall be considered direct damages and Supplier shall not assert that they are incidental or consequential damages to the extent they result from Supplier's failure to perform its obligations in accordance with the terms of this Agreement: (i) cost and expenses of recreating or reloading of lost, stolen or damaged information of Customer; (ii) cost and expenses of implementing a work-around plan in respect of a failure by Supplier to perform all or any part of its obligations under this Agreement; (iii) cost and expenses of replacing lost, stolen or damaged equipment, and materials; (iv) cost and expenses, including extra contractual obligations incurred by Customer to correct errors in Services provided as part of Supplier's performance under this Agreement or Supplier's nonperformance of Services in accordance with this Agreement; and (v) cost and expenses incurred by Customer to procure from an alternate supplier, all or any part of the Service(s) the performance of which is the obligation of Supplier under this Agreement.

18. Non-Solicitation.

During the term of this Agreement and for a period of six (6) months after the termination of this Agreement, if earlier, neither party shall solicit for employment an employee of the other party who is or

was engaged in such other party's performance hereunder without first obtaining such other party's prior written consent. For purposes of this provision, publication of job postings in a publicly available publication or forum, such as in a trade magazine or newspaper or at a job fair or on a website, or publication of openings with a career placement office or firm, shall not be considered "solicitation."

19. Term and Termination.

19.1 Generally.

The term of this Agreement will begin on the Effective Date and continue until terminated as set forth herein. In general, the term of each Work Assignment to this Agreement is anticipated to have five (5) stages, unless otherwise specified in such Work Assignment: (i) the Pre-Transition Period, (ii) the Transition Period, (iii) the Pilot, (iv) the Steady State Period, and (iii) the Disentanglement Period (which will encompass any activities agreed upon between the parties in accordance with the process set forth in Exhibit B for ramp down and/or change over to another Work Assignment). The Steady State Period will have an initial duration of one or more calendar years as specified in the Work Assignment. Thereafter, the Steady State Period will automatically renew for additional one-year intervals unless either (i) Customer provides Supplier written notice of non-renewal three (3) months before renewal or (ii) Supplier provides Customer written notice of non-renewal nine (9) months before renewal. In any event, unless otherwise expressly agreed in a writing between the parties, this Agreement will remain in effect with respect to any Work Assignment entered into under this Agreement for as long as that Work Assignment remains in effect and has not expired or been terminated.

19.2 Termination for Breach.

If a party materially breaches this Agreement (other than a breach of payment obligations, which is subject to Section 19.3, below) and fails to cure that breach within sixty (60) days after receiving written notice thereof from the other party, then the non-breaching party may on written notice to the breaching party terminate this Agreement. Customer may choose to terminate specific affected Services rather than the entire Agreement.

19.3 Termination for Non-Payment.

If Customer defaults in the payment of any undisputed amounts due and owing under this Agreement and does not within forty-five (45) days after receiving written notice thereof from Supplier cure such default, Supplier may terminate this Agreement on written notice to Customer. Supplier's right to give such termination notice shall expire once Customer becomes current with respect to such amounts.

19.4 Termination for Change of Control.

In the event of a Change in Control of Supplier resulting from a single transaction or series of related transactions (other than an initial or secondary public offering of shares in the Supplier) during the term of this Agreement, then, within twenty-four (24) months of such Change in Control, Customer may terminate this Agreement or specific Services on written notice to Supplier. As used herein, and subject to the exception referenced herein, "Change in Control" means (i) a sale by Supplier of a majority of its assets or business relating to this Agreement, or (ii) any acquisition of a majority of the stock of Supplier and/or the statutory merger of Supplier with any other entity.

19.5 Termination for Convenience.

Unless otherwise specified in the applicable Work Assignment, and subject to compliance with any other terms contained in such Work Assignment regarding Customer's rights and obligations with respect to termination for convenience, Customer may terminate this Agreement or any Services (i) on

thirty (30) days written notice to Supplier during the Pre-Transition or Transition Period or (ii) on sixty (60) days written notice to Supplier during the Steady State Period. Customer may also terminate any Services during the Disentanglement Period on thirty (30) days written notice to Supplier.

19.6 Disentanglement.

Upon termination or expiration of all or any portion of the Services provided pursuant to this Agreement or upon termination or expiration of this Agreement, Supplier will accomplish a complete transition to Customer, or to any alternate service provider designated by Customer, of the terminated Services being provided by Supplier without interruption or adverse impact on such Services, any other Services still being performed by Supplier, or any other services provided to Customer by third parties (the "Disentanglement"). Supplier will cooperate with Customer and any alternate service provider designated by Customer and otherwise promptly take all actions required to assist Customer in effecting a complete Disentanglement. Supplier will provide all information and assistance regarding the terminated Services required for Disentanglement, including data conversion, interface specifications, and related professional services. Supplier will provide for the prompt and orderly conclusion of all work, as Customer may direct, including completion or partial completion of projects, documentation of all work in progress, and other measures to assure an orderly transition to Customer or its designee. All such activities and services relating to Disentanglement (collectively "Disentanglement Services") will otherwise be deemed a part of the Services to be performed by Supplier. Disentanglement Services will include developing an orderly transition plan and giving Customer the right to obtain or continue to use any hardware or software, or obtain any third party contracts, to the extent reasonable. To the extent the Disentanglement Services are a continuation of those Services provided before the termination or expiration of this Agreement, the charges for such Services and the charges for any additional services (hereby also deemed "Services" hereunder) will be calculated in accordance with the applicable Work Assignment(s). Notwithstanding the foregoing, Customer will not owe any charges for Disentanglement Services to the extent Customer terminated this agreement pursuant to Sections 19.2 (Breach) or 19.4 (Change of Control). Supplier will perform the Disentanglement Services for the period specified by Customer, which will be up to eighteen (18) months (the "Disentanglement Period").

19.7 Effect of Termination.

For clarity, following any "termination" of this Agreement as set forth above, the terms and provisions of this Agreement will continue in effect to the extent Disentanglement Services continue thereafter, until the termination of the Disentanglement Services.

20. WAIVER OF JURY TRIAL.

EACH PARTY TO THIS AGREEMENT HEREBY UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL SUIT, ACTION, PROCEEDING, CLAIM OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT.

21. Assignment.

This Agreement may not be assigned by Supplier without Travelers prior written consent. Travelers may assign or transfer this Agreement, without consent, by providing written notice to Supplier in the following circumstances: a) to an Affiliate; b) to a Divested Entity or c) to a successor pursuant to a Change of Control (as defined in this Section 21). As used herein, "Change in Control" means (i) a sale by Travelers of a majority of its assets or business relating to this Agreement, or (ii) any acquisition of a majority of the stock of Travelers and/or the statutory merger of Travelers with any other entity. In the event of a Change in Control, Travelers may (at its option) (i) continue this Agreement; (ii) transfer Travelers rights under this Agreement to an existing agreement between the successor and Supplier; or (iii) terminate this Agreement upon written notice to Supplier. Any attempt to assign this Agreement, or any rights or obligations hereunder, in contravention of this paragraph will be void and unenforceable. This Agreement shall bind and inure to the benefit of the parties hereto and their successors and permitted assigns.

22. Notices and Writings.

For all purposes under this Agreement, including: (i) providing notices or other communications required or permitted by this Agreement or (ii) waiving any right under this Agreement and notwithstanding any law recognizing electronic signatures or records, “written,” “a writing signed” and “in writing” shall mean only a writing in tangible form bearing an actual “wet” signature in ink manually applied by the person authorized by the respective party, unless both parties agree otherwise by making a specific reference to this section of the Agreement. All notices under this Agreement shall be in writing and shall be given by letter or facsimile with hard copy confirmation to the parties’ respective addresses given below, and will be effective when received.

Notice addresses:

If to Customer:

Ron Godbey
Law Dept., Contracts Administrator
One Tower Square 3 PB
Hartford, CT 06183

If to Supplier:

Rohit Kapoor, President,
350 Park Avenue, 10th Floor,
New York, NY 10022

23. Force Majeure.

- 23.1 Each party will be excused from performance under this Agreement (other than obligations to make payments that have become due and payable pursuant to this Agreement) for any period and to the extent that it is prevented from performing any obligations pursuant to this Agreement, in whole or in part, as a result of an event beyond the reasonable control of such party, such as, by way of example and not limitation, natural disaster, civil war, war, an act of government, or an act of terrorism (each such event a “Force Majeure Event”). If either party is prevented from, or delayed in performing any of its obligations under this Agreement by a Force Majeure Event, it shall promptly notify the other party by telephone (to be confirmed in writing within five (5) business days of the inception of the delay) of the occurrence of a Force Majeure Event and describe, in reasonable detail, the circumstances constituting the Force Majeure Event and of the obligations the performance of which are thereby delayed or prevented. Such party shall continue to use commercially reasonable efforts to recommence performance whenever and whatever extent possible without delay.
- 23.2 If a Force Majeure Event relating to Supplier or a permitted subcontractor prevents, hinders or delays performance of the Services necessary for the performance of one or more critical Customer business functions for more than *** business days or such shorter period as may be necessary to meet regulatory requirements or longer period as may be agreed upon in writing between the parties at the time of the disclosure of the Force Majeure Event, then at Customer’s option: (i) Customer may procure replacement services from an alternate source; or (ii) Customer may terminate the Service so affected (or if the Force Majeure Event only affects one or more geographic areas, the Service in the areas so affected). Supplier shall not have the right to any additional payments from Customer as a result of any Force Majeure Event, other than Customer’s payment of amounts otherwise due for Services provided in accordance with the applicable Work Assignment and/or Work Orders.
- 23.3 Nothing in this Section 23 shall relieve Supplier’s obligations to provide Disaster Recovery Services in accordance with Exhibit C or, if different, the terms of a particular Work Assignment or Work Order impacted by the Force Majeure Event.

24. Waiver.

No delay or omission by a party to exercise any right or power under this Agreement will impair that right or power, or be construed as a waiver of any term or provision hereof. No term or provision hereof shall be deemed waived and no breach excused unless such waiver or consent shall be in an express writing signed by the party claimed to have waived or consented. Any consent by any party to, or waiver of, a breach by the other shall not constitute a consent to, or waiver of, or excuse for any other different or subsequent breach.

25. Interpretation.

The parties to this Agreement have participated jointly in the negotiation and drafting of this Agreement. Consequently, in the event that an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement. The headings of the sections of this Agreement constitute no part of this Agreement between the parties, having been inserted for convenience of reference only. References in this Agreement to "days" shall mean calendar days unless otherwise specified. Use of the terms "including," "include," or "includes" herein shall not be limiting and "or" shall not be exclusive.

26. Governing Law; Venue.

This Agreement shall be governed by and construed in accordance with the laws of the State of Connecticut (other than its principles of conflicts of laws). The United Nations Convention on the International Sale of Goods shall not apply to this Agreement. In the event that the Uniform Computer Information Transactions Act, any version thereof or any substantially similar law ("UCITA") may apply to this Agreement or the parties hereunder, said statute shall not govern any aspect of this Agreement, any license granted under this Agreement, or any of the parties' rights and obligations arising pursuant to this Agreement, all of which shall be governed by the laws of the State of Connecticut as it existed prior to and apart from such enactment. Both parties agree to submit to jurisdiction of the State of Connecticut and further agree that any litigation arising under or relating to this Agreement may be brought in a court of otherwise proper jurisdiction in Hartford, Connecticut.

27. Severability.

In case any one or more of the provisions contained in this Agreement shall be held invalid, illegal or unenforceable in any respect, such provision or provisions, to the extent held to be invalid, illegal or unenforceable, shall be stricken and the validity, legality and enforceability of the remaining provisions contained in this Agreement shall not in any way be affected or impaired thereby. However, in the event any such provision or portion thereof shall be held invalid, illegal or unenforceable due to its scope, breadth or duration, then it shall be modified to the scope, breadth or duration permitted by law and shall continue to be fully legal, valid and enforceable to the extent so modified.

28. Survival.

Sections 2, 3, 4, 5, 6, 9, 10, 11, 12, 13, 14, 15 and 16 of this Agreement shall survive termination hereof.

29. Entire Agreement.

This Agreement, its Exhibits, and all addenda constitute the entire agreement between the parties with respect to the subject matter of this Agreement, supersede all prior agreements, representations and understandings between the parties, written, oral or otherwise, with respect to such subject matter, and may not be altered except by an express written amendment executed by both parties. For avoidance of doubt, and not by way of limitation, it is expressly agreed that this Agreement supersedes the Interim Agreement entered into between the parties as of January 5, 2006. Contrary or supplementary terms or conditions on any purchase order or any other document that is not an Exhibit, Work Assignment or Work Order hereto, or a fully and appropriately executed Change Order or amendment to this Agreement shall be of no effect.

30. Counterparts.

This Agreement may be executed by facsimile signature and in multiple counterparts, each of which will be deemed an original but both of which together constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Agreement as of this 7th day of March, 2006.

THE TRAVELERS INDEMNITY COMPANY

BY: /s/ Gary Dahms
NAME: Gary Dahms
TITLE: VP
DATE: 3/7/06

EXLSERVICE HOLDINGS, INC.

BY: /s/ Rohit Kapoor
NAME: Rohit Kapoor
TITLE: President
DATE: 3/16/06

**AMENDMENT 3 to
PROFESSIONAL SERVICES AGREEMENT**

This Amendment 3 (“Amendment”) is effective as of January 1, 2009 (“Effective Date”) and alters the terms of the Professional Services Agreement (as amended by Amendment 1, effective February 16, 2007, and Amendment 2, effective March 20, 2007, and supplemented by Addendum 1, effective September 24, 2008, the “Agreement”) entered into as of March 7, 2006 by and between The Travelers Indemnity Company (“Travelers”), for itself and its affiliates (collectively, “Customer”), and ExlService Holdings, Inc. (“EXLS”), for itself and its subsidiaries (collectively “Supplier”). Capitalized terms not defined herein shall have the meanings ascribed to them in the Agreement.

WHEREAS, the Services that Customer has engaged Supplier to perform have expanded since the Agreement was executed; and

WHEREAS, due to the evolution of the parties’ business relationship the parties wish to clarify certain details of the relationship and synchronize the expiration dates of the various Work Assignments under the Agreement.

NOW THEREFORE, in consideration of the mutual covenants set forth herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Customer and EXLS hereby agree as follows.

1. In Section 10.1, Invoices, the third sentence is deleted and replaced by the following:

Except as specified in a Work Assignment (or in a Work Order executed under a Work Assignment), overtime charges shall not apply.

2. The following subsections are added to Section 10 of the Agreement:

10.4. Rates.

The “Rate Card” attached to this Agreement as Exhibit I and incorporated herein by reference lists the rates and other charges generally applicable to the Services (collectively, for purposes of this Section 10, the “Rates”). The parties shall agree in writing to the particular Rate(s) to apply to the Services to be provided under each Work Assignment or Work Order, as applicable. Except as set forth in Section 10.5, the Rates payable for Services performed under a Work Assignment or Work Order shall not be subject to change unless otherwise specified in such Work Assignment or Work Order. Supplier shall not invoice Customer for any Rates other than those that are included in the Rate Card entries that apply to the particular Services unless other charges are expressly permitted under a Work Assignment or Work Order executed after January 1, 2009. If the parties agree to make additions to the Rate Card, such additions shall be made in accordance with the process defined in Exhibit B.

10.5 ***

10.6 Productivity Improvement.

Notwithstanding the provisions of Section 10.4, the parties have agreed that the “Productivity Improvement” provisions set forth in Exhibit K, attached to this Agreement and incorporated by reference herein, will apply to the Services as described in such Exhibit K.

10.7 Foreign Exchange.

The parties have agreed to allocate the foreign exchange rate risk for the Services performed pursuant to this Agreement in accordance with Exhibit L, attached to this Agreement and incorporated by reference herein.

10.8 ***

3. The following sentence is added to Section 11.2, Warranty and Acceptance:

The “Service Level Agreement” attached to this Agreement as Exhibit M and incorporated by reference herein shall apply to Supplier’s performance of the Services.

4. In Section 19.1, Generally, the following sentences are added at the end of the Section:

Notwithstanding the foregoing, it is the parties’ intention that all Work Assignments (and associated Work Orders) having a fixed initial term share a common anniversary date of December 31. In furtherance of such mutually agreed objective, any new Work Assignment entered into with a fixed initial term on or after the effective date of Amendment 3 to the Agreement shall have an initial term that expires on December 31 of a designated year, selected so that the new Work Assignment and all other Work Assignments that are then-currently in force and subject to an initial term and/or renewal term (as defined in each such Work Assignment) share a common renewal date. Each Work Order entered into under such a Work Assignment similarly shall have an initial term that expires on December 31 of a designated year, with the year to be selected based on Customer’s expectations regarding Customer’s business requirements for the Services.

5. All terms and conditions of the Agreement not altered by this Amendment remain in full force and effect.

[SIGNATURES APPEAR ON NEXT PAGE]

IN WITNESS WHEREOF, the parties have executed this Amendment to be effective as of the 1st day of January, 2009.

THE TRAVELERS INDEMNITY COMPANY

BY: /s/ Thurman R. Justice
NAME: Thurman R. Justice
TITLE: CFO, Operations & Systems
DATE: 3/24/09

EXLSERVICE HOLDINGS, INC.

BY: /s/ Rohit Kapoor
NAME: Rohit Kapoor
TITLE: President & CFO
DATE: 3/31/09



PRIVATE AND CONFIDENTIAL

May 1, 2009

Mr. Vishal Chhibbar
20 Banks Avenue
Hampton, Melbourne
Victoria – 3188
Australia.

EMPLOYMENT AGREEMENT

Dear Vishal,

Further to the recent meetings and discussions you had with us, we are now pleased to offer you an appointment with **exl Service.com (I) Pvt. Ltd.** (“the Company”) to the position of **Vice President and Chief Financial Officer** on the terms and conditions set out herein after:

1. EMPLOYMENT

- 1.1** Your effective date of joining (“Joining Date”) shall be no later than **1st June, 2009**.
- 1.2** Your employment with the Company is subject to:
- (i) the accuracy of the testimonials and information provided by you;
 - (ii) your being free from any contractual restrictions preventing you from accepting this offer or starting work on the above-mentioned date;
 - (iii) on our receiving two satisfactory references; and
 - (iv) if so asked by the Company, your disclosing on your own behalf and, if married, on your spouse’s behalf full details of any external directorships held and any personal business interests including partnerships, shareholdings and trusteeships; involvement in any other business ventures involving unlimited liability; personal liabilities in connection with business activities; and involvement in other positions external to the Company and acceptance by the Company of those external interests.

If you breach any of the aforesaid conditions, this offer shall stand revoked automatically (whether you have accepted it or not) and, if you have already commenced employment with the Company, such employment will automatically terminate without giving you any claim for compensation or damages, but without prejudice to the Company’s rights and remedies against you.

2. PLACE OF POSTING

- 2.1** Your initial place of posting shall be at **Noida, Uttar Pradesh**. However, your services are transferable and you may be assigned / transferred in India or outside India to serve the Company or any of its group companies. It is a condition to your employment that you comply with any such requirements of the Company. The transfer will not deem to constitute a change in your conditions of service.
- 2.2** Notwithstanding the above, you may however be required to work at any other place that the Company may deem fit and as may be required from time to time. You may also be seconded, deputed or transferred to any other company associated to the Company whether in India or abroad.

Exl Service.com (I) Pvt. Ltd.

A 48, Sector 58, Noida, (UP) 201 301, India Tel. 91 (120) 2445900 Fax 91 (120) 2490304
Registered Office 103A, Ashoka Estate, Barakhamba Road, New Delhi 110 001, India



2.3 Your place of work shall change in case of any relocation of the Company's offices, for which you shall not be entitled to any compensation.

3. PERFORMANCE OF DUTIES

- 3.1 You shall be assigned with all the duties and responsibilities of the **Chief Financial Officer** and such other duties on behalf of the Company, as may be reasonably assigned from time to time by the Company's management.
- 3.2 You shall, at all times, be required to carry out the duties and responsibilities assigned to you by the Company, faithfully and diligently and in compliance with the established policies and procedures, endeavoring to the best of your ability to protect and promote the interests of the Company.
- 3.3 You shall not, during the term of your employment, except with the written permission of the Company, engage directly or indirectly, whether part-time or full time, in any other business, occupation or activity, whether as a principal, agent or otherwise, which will be detrimental, whether directly or indirectly, to the Company's interests. It is clarified that such written permission as mentioned herein does not create any right in your favor or obligation on the Company. It shall be on the sole and exclusive discretion of the Company to grant or not to grant such permission.
- 3.4 You shall use the office of the Company only for rendering such services for which you have been appointed.
- 3.5 You are expected to attend office, except when traveling on business, during the working hours / shifts as may be decided by the Company. The Company practices a 48-hour workweek for all staff and management employees. Actual work timings and shifts may vary from time to time based on business and customer service requirements.

4. COMPENSATION

- 4.1 As compensation for services to be rendered, you shall be paid a Basic salary of **Rupees 6,187,500.00** per annum. The salary shall be payable on monthly basis in arrears on or about the last working day of each calendar month, but in no case later than the 7th day of the succeeding calendar month. Other allowances and benefits payable shall be as detailed in Appendix 1 hereto.
- 4.2 You will be entitled to a signing bonus of **Rupees 1,250,000 (Twelve Lakhs and Fifty Thousand)** payable within 60 days following your first day of work. As per the policy of the Company, the signing bonus is regarded as an advance to you for the first 18 months of your employment with the Company and is subject to you remaining actively employed with the Company for at least eighteen months following the Joining Date. Should you resign without Good Reason (as defined in the Letter Agreement between you and ExlService Holdings, Inc. dated as of June 1, 2009 (the "Letter Agreement")), or your employment be terminated for Cause (as defined in the Letter Agreement) prior to completing eighteen months of service with the Company, you will be required to refund this amount to the Company.
- 4.3 You will be eligible to receive an annual cash bonus (the "Target Bonus") in respect of each calendar year equal to 50% of your Fixed Cost, as set forth on the Annexure on page (such Fixed Cost, the "Base Salary"), subject to achievement of the following objectives:
- 60% of your total bonus potential shall depend on the achievement of corporate revenue and EBIT targets set each calendar year; and
 - 40% of your total bonus potential shall depend on achievement of personal objectives set for each calendar year, which will be mutually agreed upon with the Chief Executive Officer.

You may be eligible for a bonus payment in excess of 50% of your Base Salary, if and to the extent targets and objectives are exceeded, but in no event will your annual bonus exceed 100% of your Base Salary.

Your annual bonus will be paid no later than the end of April following the end of the preceding calendar year. You must be actively employed by the Company and must not have previously given notice of your intention to terminate your employment on the date bonuses are paid to other executives of the Company for you to be eligible for receipt. Any bonus paid in respect of 2009 will be pro-rated to the Joining Date.



- 4.4 The Compensation Committee of the Board of Directors of ExlService Holdings, Inc. will grant you a stock option in respect of 100,000 shares of common stock of ExlService Holdings, Inc. Your stock option grant will be made under the ExlService Holdings, Inc. 2006 Omnibus Award Plan (the “Omnibus Plan”) on the later of June 1, 2009 and your first day of service as an officer of ExlService Holdings, Inc. The terms of your stock option grant will be set forth in a definitive award agreement issued to you under the Omnibus Plan on or after your first day as an officer of ExlService Holdings, Inc., and your stock option will vest and become exercisable as to 10%, 20%, 30% and 40% of the option shares on of the first, second, third and fourth respective anniversaries of the date of grant of the stock option.
- 4.5 The payment of all compensation shall be made in accordance with the relevant policies of the Company in effect from time to time, including normal payroll practices, and shall be subject to income tax deductions at source, as applicable. All requirements under Indian tax laws, including tax compliance and filing of tax returns, assessment etc. of your personal income, shall be fulfilled by you.
- 4.6 The compensation paid to you has taken into consideration the status and responsibilities of the appointment and as such, you will not be entitled to any other payment by way of any other allowances.
- 4.7 By accepting this offer you authorize the Company to deduct from your remuneration on termination of employment (including salary, salary in lieu of notice, holiday pay and sick pay, etc.) all debts owed by you to the Company or any of its group companies or any fine imposed by the Company as a discretionary penalty pursuant to the Company’s disciplinary procedure.

5. CONFIDENTIALITY

- 5.1 The term “Confidential Information” shall include all information, whether written or oral, that is not known by, or not generally available to, the public at large and that concerns the business, activities, financial affairs, trade secrets, technology of the Company or otherwise relates to the Company, in any manner whatsoever, its customers, their clients, suppliers and other businesses or entities, with whom the Company does business, which may come to your knowledge or possession during the tenure of your employment with the Company. You shall hold such Confidential Information in trust and confidence and not disclose or divulge such Confidential Information to any other person or entity or use any such Confidential Information for your own benefit or the benefit of any other party, unless so authorized by the Company or required to be so disclosed or divulged in the course of the proper execution of your duties. You agree to sign the ‘Confidentiality and Non Compete Agreement’ in the form annexed to this letter.
- 5.2 You undertake not to make copies or duplicates of any Confidential Information or other sensitive property or materials of the Company, including but not limited to keys, access cards, diskettes, programs, photographs or such other proprietary information relating to the Company’s business.



- 5.3 You shall keep strictly confidential, details of your salary and employment benefits within and outside the Company.
- 5.4 You agree and confirm that the terms and conditions of this Clause 5 shall survive the termination or discontinuation of your services with the Company.

6. INTELLECTUAL PROPERTY RIGHTS

You shall be required to disclose promptly, completely and in writing to the Company any discovery, invention, methodology or improvements made thereto, process, software applications or products, conceived, developed or discovered by you, either individually or jointly with others, during your employment (“Inventions”) and such Inventions whether or not patent applications are filed thereon shall at all time belong absolutely to and be the sole and absolute property of the Company. You agree to treat such Inventions as Company proprietary and confidential and to use such Inventions solely for the benefit of the Company. You agree to assign to the Company any and all rights, title and interest, including, but not limited to, copyrights, trade secrets and proprietary rights to the Inventions, information, materials, products and deliverables developed during the performance of services to the Company. You agree that all the work performed by you and all Inventions, information, materials, products and deliverables developed by you while in the employment of the Company shall be the exclusive property of the Company and all title and interest therein shall vest in the Company. All such Inventions, information, materials, products and deliverables shall be deemed to be “works made for hire” under the United States Copyright Laws. If and when required by the Company, you shall at the Company’s expense take out or apply for letters patent, licenses or other rights, privileges or protection, as may be directed by the Company in respect of such Inventions, so that the benefit thereof accrues to the Company. You shall execute and do all instruments, acts, deeds and other things, which may be required by the Company for assigning, licensing any Inventions made during the employment, which shall vest with the Company including the name and all benefits arising in respect thereof.

Pursuant to its exclusive proprietary rights, the Company shall have the sole and exclusive right inter-alia to use, modify or adapt the Inventions, information, materials, products or deliverables developed by you during the performance of your services as an employee of the Company.

7. Disciplinary Action Procedure

Any breach of the Company’s Code of Conduct, failure to attain or maintain a satisfactory work standard or any misconduct by an employee will be regarded as a disciplinary or capability matter. Your immediate superior will normally deal with minor disciplinary matters. The procedure for more serious offences including major misconduct shall be as set out under the Code of Conduct.

8. Code of Conduct

You shall abide and be bound by the Company’s Code of Conduct, and the Code of Conduct will form a part of this contract of employment. The Code of Conduct may be changed at any time at the discretion of the Company and the changed Code of Conduct shall thereupon bind you. You will also carry out and abide by any instruction, policy issued by the Company from time to time.



9. TERMINATION OF EMPLOYMENT AND RETIREMENT

- 9.1 At any stage of your employment, you may terminate your employment without Good Reason (as defined in the Letter Agreement) by giving three months notice in writing to the Company or in lieu thereof a sum equal to the amount or pro-rated amount of salary which would have accrued to you during the period or remaining period of notice. If the Company terminates your employment without Cause, the Severance provisions in the Letter Agreement will apply.
- 9.2 After either you or the Company have given the other party notice of your termination of employment, you shall cooperate with the Company, as reasonably requested by the Company, to effect a transition of your responsibilities and ensure that the Company is aware of all matters being handled by you. The Company reserves the right not to relieve you of your employment in the event that all the Company's documents / property / Confidential Information in your custody have not been properly handed over by you to an authorized representative of the Company.
- 9.3 Upon termination of your employment with the Company for any reason, you shall promptly return to the Company any keys, credit cards, passes, confidential documents or material, or other property belonging to the Company, and return all writings, files, records, correspondence, notebooks, notes and other documents and things (including any copies thereof) containing Confidential Information or relating to the business or proposed business of the Company or its subsidiaries or affiliates.
- 9.4 The Company reserves the right during any period of notice of termination of employment to exclude you from the premises of the Company, or to require you to carry out specified duties at premises other than those referred to in paragraph 3.1 above, or to carry out no duties, and to instruct you not to communicate with clients, employees, agents or representatives of the Company until your employment has been terminated, provided that you will continue to be paid and to enjoy normal contractual benefits during any such period. You will not be entitled to engage in any other employment, work or business during the notice period.
- 9.5 You shall retire on your 58th birthday or the last day before that, if your birthday does not fall on a working day.
- 9.6 Notwithstanding anything contained in clause 9.1, the Company reserves the right to terminate your employment for Cause (as defined in the Letter Agreement) without giving any notice period or pay in lieu thereof.

10. RELOCATION

- 10.1 The Company will provide you with a monthly housing reimbursement for your family in Melbourne, Australia, not to exceed Rupees 100,000 per month. The monthly housing reimbursement will end on December 31, 2009. You will be solely responsible for any tax liability arising from the housing allowance.

The Company will also provide a total of four round trip and four one way business class airfare tickets for travel between Melbourne, Australia and New Delhi, India for you and your family.

The Company will also reimburse you up to Rupees 500,000 for actual documented moving expenses incurred by the relocation of your personal effects from Melbourne, Australia to New Delhi, India.

We will provide up to Rupees 50,000 to help cover any documented costs of tax filing and tax advisory services you incur before the first anniversary of your Joining Date.



11. OTHERS

11.1 You will be bound by the Code of Conduct of the Company and all other rules, regulations, instructions, policies and orders issued by the Company from time to time, in relation to your conduct, discipline and service conditions such as leave, medical, retirement, etc. as if these Code of Conduct, rules, regulations, instruction, policies etc. were part of this agreement.

11.2 You shall inform the Company as soon as possible about any change in your residential address.

11.3 The provisions of this agreement shall be construed and governed in accordance with the laws of India.

Kindly sign and return the duplicate copy of this letter, as a token of your acceptance of the terms and conditions set out herein. Also, please initial each page of the letter.

Please note that by signing this letter agreement, you have agreed to accept the employment with the Company on the terms and conditions set out herein. Upon your signature and return to us, this offer letter will be treated as an employment agreement and the terms and conditions of this agreement shall govern your employment with the Company.

This offer shall automatically stand revoked in the event of your not joining the Company on or before the date mentioned in this employment offer and agreement.

It is a pleasure to welcome you as a member of exl Service.com (India) Private Limited. We are confident that your employment with the Company will prove mutually beneficial & rewarding, and we look forward to having you join us.

Yours truly,
for **exl Service.com (I) Pvt. Ltd.**

/s/ Amitabh Hajela
Amitabh Hajela
Vice President & Global Head of HR

I accept the offer on the terms and conditions as described in this letter.

/s/ Vishal Chhibbar
Vishal Chhibbar

5th May, 2009
Date

COMPENSATION & BENEFITS

- You shall be eligible for House Rent Allowance of **60%** of your annual basic salary. The Company may provide Company Leased Accommodation in accordance with its internal policies, where the cost to the company shall be limited to the above mentioned amount.
- As per the policies and procedures of the Company, you shall be eligible for leave travel concession of **8.33%** of your annual basic salary.
- You shall be entitled to avail Medical Reimbursements of up to **Rupees 15,000.00** per annum, against actual medical expenses on self and family, subject to your providing bills/invoices/other documentary evidence in respect of the same.
- You shall receive an Ad-hoc Allowance of **Rupees 1,301,462.00** per annum, which will be paid in accordance with the prevailing policy of the Company.
- The Company shall provide you with a car commensurate with your job and position. The annual cost of providing this car shall not exceed **Rupees 750,000.00** per annum.
- You shall be provided with superannuation benefits of Provident Fund and Gratuity in accordance with the applicable statutory requirements.
- You shall be covered under a comprehensive medical insurance coverage (under Mediclaim Policy) for self, spouse, 2 dependent children and personal accident insurance coverage as per the Company policy for self only.

Notes:

- The cost to the Company for the above mentioned benefits will be limited to the amount mentioned hereinabove. If any of the above-mentioned benefits becomes chargeable to tax because of any reason whatsoever, it is hereby clarified that it would be your responsibility to pay the taxes, if any. The Company will, in no case, be responsible for the same.
- The benefits under the above schemes will be governed by the Company's rules and regulations framed in this regard. It is the absolute discretion of the management to decide whether any particular benefit will be provided to you or not.



Business Related Expenses

You shall be reimbursed business related expenses as per the following specifications and annualized limits.

Vehicle Running and Maintenance: Actual expenses incurred towards petrol / diesel and maintenance of vehicle shall be reimbursed up to a maximum of **Rupees 120,000.00** per annum. This will be reimbursed to you on production of bills.

Driver's Wages: Actual expenses incurred towards paying wages to your driver shall be reimbursed up to a maximum of **Rupees 108,000.00** per annum. This will be reimbursed upon submission of stamped receipt from your driver and a copy of his driving license.

Details of Business Related Expenses policy shall be explained after your joining.



CONFIDENTIALITY AND NON COMPETITION AGREEMENT

As a condition of my provision of services to or on behalf of **exl Service.com (I) Pvt. Ltd.** or any of its affiliates (hereinafter referred to “the Company”), I make the following statements with the understanding and intent that they be relied on by the Company in entering into an agreement and by the Company in extending its offer of employment. I acknowledge and understand that in providing services to and on behalf of the Company, I will have access to Confidential and Proprietary Information (as defined hereunder).

I understand that the term “Confidential and Proprietary Information” shall include all information, whether written or oral, that is not known by, or not generally available to, the public at large and that concerns the business, activities, financial affairs, trade secrets, technology of the Company or otherwise relates to the Company, in any manner whatsoever, its customers, their clients, suppliers and other businesses or entities, with whom the Company does business, which may come to your knowledge or possession during the tenure of your employment with the Company.

I agree that during the period in which I provide services to the Company:

1. I will use my best efforts and exercise the utmost diligence in keeping confidential, all Confidential and Proprietary Information, including but not limited to innovations, processes, methodologies, software applications or products, business and strategic plans and initiatives, financial information and similar information unless lawfully made available by a client or the Company concerning any client of the Company or by the Company itself which I may learn, acquire or get possession of, during the course of or by virtue of my provision of consulting services to the Company. I will use such materials and information relating to Confidential and Proprietary Information solely for the benefit of the Company and its clients and will not use such information for any other entities or persons. At the conclusion of my relationship with the Company I will return any material relating to Confidential and Proprietary Information and any copies thereof.
2. I agree not to keep at any time on my person or in my possession, except in the necessary performance of my duties, any non- public material acquired by me, whether produced by me or by employees or agents of the Company or any client. I agree to safeguard all such Confidential and Proprietary Information materials while they are in my possession, and to surrender them and all copies, which have been made of them to the Company upon termination of my relationship with the Company.
3. I will at all times exercise discretion in discussing with others the affairs of clients, avoiding unnecessary identification of names, places, and other specifics, and I will take reasonable precautions to make sure that such discussions cannot be overheard, and electronic communications cannot be intercepted either by client’s employees or outside persons.
4. I will not make any private use of Confidential and Proprietary Information that may come to my attention because of my employment with the Company, nor will I pass such Confidential and Proprietary Information on to anyone else. I understand the term “use” includes, but is not limited to, anyone’s purchase or sale of securities influenced by such Confidential and Proprietary Information, access to which is directly or indirectly due to my relationship with the Company.
5. I agree to disclose and assign promptly, completely and in writing to the Company any inventions, whether or not patentable, and including but not limited to, any innovations on processes, methodologies, software applications or products which I discover, conceive and/or develop, either individually or jointly with others, during the term of my professional relationship with the Company (“Inventions”). I understand that all inventions which I do hereby assign are and shall become the exclusive property of the Company, whether or not patent applications are filed thereon, and I agree to treat such inventions as Company



proprietary and confidential information and to use such solely for the benefit of the Company. I hereby assign to the Company any and all rights, title and interest, including, but not limited to, copyrights, trade secrets and proprietary rights to the information, materials, products and deliverables developed during the performance of services to the Company. All work I perform in my professional capacity and all information, materials, products and deliverables developed by me in acting as a consultant to the Company shall be the exclusive property of the Company and all title and interest therein shall vest in the Company. All such information, materials, products and deliverables shall be deemed to be “works made for hire” under the United States Copyright Laws. Pursuant to its exclusive proprietary rights, the Company shall have the sole and exclusive right inter alia to use, modify or adapt the information, materials, products or deliverables that I developed during the performance of services as a consultant to the Company. I agree to provide all necessary assistance required to perfect such assignment of rights defined in this provision.

6. I will not for a period of two years after the termination of this agreement, whether voluntarily or involuntarily (a) directly or indirectly solicit to provide or provide, without the prior written consent of the Company, any professional services such as those provided by the Company for anyone who is a client of the Company anytime during the twelve months prior to my leaving the Company and for whom I provided any service as an employee of the Company or (b) directly or indirectly, without the prior written consent of the Company, solicit for employment with myself or any Company or entity with which I am associated, any employee of the Company or otherwise disrupt, impair, damage, or interfere with the Company’s relationship with its employees. The non-compete provisions of this paragraph will not apply to a client of the Company for whom I performed services or with whom I had significant professional contact prior to joining the Company and which list of clients I have disclosed to the Company prior to my joining.
7. If I am directed by any governmental agency or judicial forum or asked to testify concerning any matter learned in the course of services provided to or on behalf of the Company, I will immediately notify the Company before making any disclosures.
8. I further agree that in the event of termination of this agreement, or my employment with the Company, whether of my own volition or otherwise, for a period of two (2) year thereafter, I shall not directly or indirectly, provide any services to or take up employment with any of the existing customers of the Company.
9. That in the event I am found to be in breach of this agreement, or my employment contract with the Company, I shall be liable to pay to the Company a sum equivalent to the remuneration / compensation received by me, from the Company, in the last three months immediately preceding the termination. This will in no way effect the other rights which the Company may have against me, especially the right to obtain injunctive relief against me.

/s/ Vishal Chhibbar

Vishal Chhibbar
5th May, 2009



Annexure

Name-Vishal Chhibbar	
Date of Joining	June 1, 2009
Designation - Chief Financial Officer	
Basic (45% of CTC)	6,187,500
Housing - 60% of Basic	3,712,500
Leave Travel - 8.33% of Basic	515,419
Medical	15,000
Ad-Hoc Allowance	1,301,462
Business Related Expenses	
Vehicle Running & Maintenance	120,000
Driver's Wages	108,000
Company Car	750,000
Retirals	
Provident Fund -12% of Basic	742,500
Gratuity - 4.81% of Basic	297,619
Fixed Cost	13,750,000

EXLSERVICE HOLDINGS, INC.

May 1, 2009

Mr. Vishal Chhibbar
20 Banks Avenue
Hampton, Melbourne
Victoria – 3188
Australia

Re: Letter Agreement

Dear Vishal:

This Letter Agreement (the "Letter Agreement") is in addition to the employment letter dated May 1, 2009, pursuant to which you were hired by exlService.com (India) Private Limited ("Exl India") effective on June 1, 2009, (the "Employment Letter").

Effective June 1, 2009, you will be appointed to the position of Vice President and Chief Financial Officer of ExlService Holdings, Inc. (the "Company"), the parent company of Exl India and this Letter Agreement is between you and the Company. As Chief Financial Officer of the Company, you will be reporting directly to the Company's President and Chief Executive Officer, or such other person designated by the Company.

The offer of continued employment contained in the Employment Letter is not to be considered a contract guaranteeing employment for any specific duration.

Annual performance reviews by the President and Chief Executive Officer of the Company will be conducted to assess professional development opportunities as well as to consider increases to your compensation (including, without limitation, increasing Base Salary (as defined in the Employment Letter) and the percentage Target Bonus (as defined in the Employment Letter) as well as granting of additional options or other forms of equity compensation).

You will also be covered by the Company's director and officer insurance and be indemnified on the same basis as other officers in the Company. The foregoing right of indemnification shall not be exclusive of any right to Indemnification to which you may be entitled under the Company's Articles of Incorporation or By-Laws, as a matter of law or otherwise, or any other power that the Company may have to indemnify you or hold you harmless.

Severance: If Exl India terminates your employment other than for "Cause" (defined below) or you resign for "Good Reason" (defined below), subject to the execution (and non-revocation during any applicable revocation period) of a mutually agreeable release of all employment-related claims against the Company and its subsidiaries and each of their

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employees, officers and directors (a “Release”), you shall be entitled to severance payments equal to twelve (12) months Base Salary (as defined in the Employment Letter) then in effect, paid in twelve (12) monthly installments beginning thirty-one (31) days following your termination of employment. The Release must be executed and become irrevocable within thirty (30) days following your termination of employment for you to be eligible for any payment in accordance with this paragraph.

If Exl India terminates your employment for Cause or you resign voluntarily other than for Good Reason, you will not be entitled to any further compensation or payments under this Letter Agreement.

“**Cause**” shall mean (A) a final non-appealable conviction of, or a pleading of no contest to, (i) a crime of moral turpitude which causes serious economic injury or serious injury to the Company’s reputation or (ii) a felony; or (B) fraud, embezzlement, gross negligence, self-dealing, dishonesty or other gross and willful misconduct which has caused serious and demonstrable injury to the Company; (C) material violation by you of any material Company policy; (D) willful and continuing failure to substantially perform your duties (other than for reason of physical or mental incapacity) which failure to perform continues beyond fifteen (15) days after a written demand for substantial improvement in your performance, identifying specifically and in detail the manner in which improvement is sought, is delivered to you by the Company; provided that a failure to achieve performance objectives shall not by itself constitute Cause and no act or failure to act by you shall be considered “willful” unless done or failed to be done by you in bad faith and without a reasonable belief that your actions or omission was in the best interest of the Company; (E) your failure to reasonably cooperate in an investigation involving the Company by any governmental authority; (F) your material, knowing and intentional failure to comply with applicable laws with respect to the execution of the Company’s business operations, including, without limitation, a knowing and intentional failure to comply with the Prevention of Corruption Act of India, 1988, or the United States Foreign Corrupt Practices Act of 1977, as amended; provided, that, if all of the following conditions exist, there will be a presumption that you have acted in accordance with such applicable laws: you are following, in good faith, the written advice of counsel, such counsel having been approved by the Board of Directors of the Company as outside counsel to the Company for regulatory and compliance matters, in the form of a legal memorandum or a written legal opinion, and you have, in good faith, provided to such counsel all accurate and truthful facts necessary for such counsel to render such legal memorandum or written legal opinion; (G) your failure to follow the lawful directives of the Board which is not remedied within fifteen (15) days after your receipt of written notice from the Company specifying such failure; or (H) your use of alcohol or drugs which materially interferes with the performance of your duties.

“**Good Reason**” shall mean the occurrence, without your prior written consent, of any of the following events: (A) a substantial reduction of your duties or responsibilities or change in reporting relationship to anyone other than the Company’s Board of Directors, or the President and Chief Executive Officer, (B) your job title as an officer of the Company is adversely changed, provided that if there is a “Change of Control” (as defined in the ExlService Holdings, Inc. 2006 Omnibus Award Plan) and you retain similar title

and similar authority with the Company or any entity that acquires the Company (or any affiliate or subsidiary of such entity) following such Change of Control, the parties agree that any change in your title shall not constitute a significant reduction of your duties and authorities hereunder; (C) a reduction of your then Base Salary or annual cash bonus opportunity other than a proportionate reduction impacting all members of the Executive Committee of the Company; or (D) a breach by the Company of any material term of the Employment Letter or this Letter Agreement; provided that, a termination by you with Good Reason shall be effective only if, within 30 days following your first becoming aware of the circumstances giving rise to Good Reason, you deliver a "Notice of Termination" for Good Reason by you to the Company, and the Company within 15 days following its receipt of such notification has failed to cure the circumstances giving rise to Good Reason.

Change of Control:

In the event that a Change in Control occurs at a time when any portion of restricted stock or a stock option remains unvested, then effective upon the consummation of the Change in Control, the vesting of the portion of the restricted stock or stock option which is not then fully vested shall accelerate such that any portion of the of restricted stock or stock option which would have become vested during the one-year period following the Change in Control shall become vested effective as of the consummation of the Change in Control. In the event that (i) your employment with the Company is terminated without Cause (a) at any time following a Change in Control or (b) in specific contemplation of a Change in Control or (ii) you resign with Good Reason at any time following a Change of Control, you shall, upon and subject to your execution (and non-revocation during any applicable revocation period) of a mutually agreeable Release, be entitled, in addition to the severance specified above, to immediate full vesting as of the termination date of any portion of restricted stock or a stock option which is unvested as of the termination date.

Clawback: If Exl India terminates your employment for Cause or you resign voluntarily other than for Good Reason, in either case within eighteen (18) months following your date of hire, you will be required to repay to the Company within thirty days following your termination of employment (i) the relocation allowance detailed in Section 10.1 of the Employment Letter, (ii) the sign-on bonus described in Section 4.2 of the Employment Letter and (iii) the cost to the Company of the travel assistance detailed in Section 10.1 of the Employment Letter.

Section 409A: The parties intend that any amounts payable hereunder that could constitute "deferred compensation" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder ("Section 409A"), will be compliant with Section 409A. In light of the uncertainty as of the date hereof with respect to the proper application of Section 409A, you and the Company agree to negotiate in good faith to make amendments to the Employment Letter and this Letter Agreement as the parties mutually agree are necessary or desirable to avoid the imposition of taxes or penalties under Section 409A. Notwithstanding the foregoing, you shall be solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on you or for your account in connection with the Employment Letter and this Letter Agreement (including any taxes and penalties under Section 409A), and neither the Company nor any affiliate shall have any obligation to indemnify or otherwise hold you (or any beneficiary) harmless from any or all of such taxes or penalties.

Notwithstanding anything in the Employment Letter or this Letter Agreement to the contrary, in the event that you are deemed to be a “specified employee” within the meaning of Section 409A(a)(2)(B)(i) and you are not “disabled” within the meaning of Section 409A(a)(2)(C), no payments hereunder that are “deferred compensation” subject to Section 409A shall be made to you prior to the date that is six (6) months after the date of your “separation from service” (as defined in Section 409A) or, if earlier, your date of death. Following any applicable six (6) month delay, all such delayed payments will be paid in a single lump sum on the earliest permissible payment date. For purposes of Section 409A, each of the payments that may be made under the section entitled “Severance” are designated as separate payments for purposes of Treasury Regulations Section 1.409A-1(b)(4)(i)(F), 1.409A-1(b)(9)(iii) and 1.409A-1(b)(9)(v)(B).

For purposes of the Employment Letter and this Letter Agreement, with respect to payments of any amounts that are considered to be “deferred compensation” subject to Section 409A, references to “termination of employment” (and substantially similar phrases) shall be interpreted and applied in a manner that is consistent with the requirements of Section 409A.

To the extent that any reimbursements pursuant to the Employment Letter or this Letter Agreement are taxable to you, any such reimbursement payment due to you shall be paid to you as promptly as practicable, and in all events on or before the last day of your taxable year following the taxable year in which the related expense was incurred. Such reimbursements are not subject to liquidation or exchange for another benefit, and the amount of such benefits and reimbursements that you receive in one taxable year shall not affect the amount of such benefits or reimbursements that you receive in any other taxable year.

Any payment made to you in respect of the continuation of any health and dental insurance coverage under the Employment Letter (to the extent such payments are treated as “deferred compensation” within the meaning of Section 409A) shall be paid as soon as practicable following submission of the claims but in any event not later than the third calendar year following the calendar year in which your “separation from service” (as defined in Section 409A) occurs.

It is intended that any indemnification payment or advancement of expenses made hereunder shall be exempt from Section 409A. Notwithstanding the foregoing, if any indemnification payment or advancement of expenses made hereunder shall be determined to be “deferred compensation” within the meaning of Section 409A, then (i) the amount of the indemnification payment or advancement of expenses during one taxable year shall not affect the amount of the indemnification payments or advancement of expenses during any other taxable year, (ii) the indemnification payments or advancement of expenses must be made on or before the last day of your taxable year following the year in which the expense was incurred, and (iii) the right to indemnification payments or advancement of expenses hereunder is not subject to liquidation or exchange for another benefit.

Business Expenses:

The Company will pay for or reimburse you for authorized and proper business-related expenses that you may incur in discharging your duties.

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Covenant Not to Compete:

You acknowledge that the services you are to render to the Company are of a special and unusual character, with a unique value to the Company, the loss of which cannot adequately be compensated by damages or an action at law. In view of the unique value to the Company, its subsidiaries and affiliates (collectively, the “Group”) of the services of you for which the Company has contracted hereunder, because of the confidential information to be obtained by, or disclosed to, you as herein above set forth, and as a material inducement to the Company to enter into this Letter Agreement and to pay to you the compensation stated herein and any additional benefits stated herein, and other good and valuable consideration, you covenant and agree that during your employment and during the “Non-Competition Period,” as defined below, you shall not, directly or indirectly, enter into the employment of, tender consulting or other services to, acquire any interest in (whether for your own account as an individual proprietor, or as a partner, associate, stockholder, officer, director, trustee or otherwise), or otherwise participate in any business that competes, directly or indirectly, with any member of the Group (i) in the same lines of business in the business process outsourcing industry that the members of the Group are engaged in at the time your employment is terminated, or if you are an employee of any member of the Group, at the time you are accused of being in competition with any of the Group pursuant to this Letter Agreement; (ii) in the provision of the business processes provided by the Group at the time your employment is terminated, or if you are an employee of any member of the Group, at the time you are accused of being in competition with any member of the Group pursuant to this Letter Agreement; (iii) in the provision of business processes that any of the Group has taken substantial steps to provide to customers at the time your employment is terminated, or if you are an employee of any of the Group, at the time you are accused of being in competition with any of the Group pursuant to this Letter Agreement; or (iv) in the provision of business processes that any of the Group are in the process of marketing to existing or potential clients that any of the Group are taking measures to retain as clients of the Group, at the time your employment is terminated, or if you are an employee of any of the Group, at the time you are accused of being in competition with any of the Group pursuant to this Letter Agreement, during your employment with the Group. You and the Company acknowledge that clauses (ii), (iii) and (iv) in the immediately preceding sentence shall not be deemed or interpreted to narrow or otherwise limit the scope of clause (i) of such sentence. For purposes of this Letter Agreement, the “Non-Competition Period” shall be the one year period following your termination of employment for any reason.

Notwithstanding the foregoing, nothing in this Letter Agreement shall prevent (A) the purchase or ownership by you of up to two percent (2%) in the aggregate of any class of securities of any entity if such securities (i) are listed on a national securities exchange or (ii) are registered under Section 12(g) of the Securities Exchange Act of 1934; or (B) the direct or indirect ownership of securities of a private company, provided that, you are only

a passive investor in such company (having no role, duty or responsibility whatsoever in the management, operations or direction of such company) and own no more than five percent (5%) in the aggregate of any securities of such company. If your employment with the Company is terminated for any reason, and after such termination you wish to take any action, including without limitation, taking a position with another company, which action could potentially be deemed a violation of this Letter Agreement, you shall have the right, after providing the Board with all relevant information, to request a consent to such action from the Board which consent shall not be unreasonably withheld. The Board shall respond to your request by granting or denying such consent within not more than 30 calendar days from the date the Company receives written notice of such request from you. If you disagree with the Board's decision relating to the consent, then a third-party arbitrator (the "Arbitrator") shall be appointed within five (5) days of the date you notify the Company of your disagreement, and the third party Arbitrator shall be instructed to make a determination with respect to whether your action would constitute a legally valid and enforceable violation of this Letter Agreement within not more than thirty (30) days following his appointment and such determination shall be binding on all of the parties hereto. The cost of the Arbitrator shall be borne by the Company; provided, however, if the Arbitrator's determination is inconsistent with your position, then the cost of the Arbitrator shall be borne by you.

Confidential Information:

Protection of Confidential Information. You acknowledge that the Group has a legitimate and continuing proprietary interest in the protection of their confidential information and that they have invested substantial sums and will continue to invest substantial sums to develop, maintain and protect such confidential information. During your employment with the Group and at all times thereafter, you shall not, except with the written consent of the Company or in connection with carrying out your duties or responsibilities hereunder, furnish or make accessible to anyone or use for your own benefit any trade secrets, confidential or proprietary information of any member of the Group, including their business plans, marketing plans, strategies, systems, programs, methods, employee lists, computer programs, insurance profiles and client lists; provided, however, that such protected information shall not include either information required to be disclosed under law or pursuant to an order of a court, governmental agency, arbitration panel or other person or body with apparent jurisdiction or information known to the public or otherwise in the public domain without violation by you of this Letter Agreement.

Property of the Company. All memoranda, notes, lists, records and other documents or papers (and all copies thereof) relating to the Group, whether written or stored on electronic media, made or compiled by or on behalf of you in the course of your employment, or made available to you in the course of your employment, relating to any of the Group, or to any entity which may hereafter become an affiliate thereof, but excluding your personal effects, rolodexes and similar items, shall be the property of the Company, and shall, except as otherwise agreed by the Company, be delivered to the Company promptly upon the Termination of your employment with the Company or at any other time upon request.

Non-Disparagement; Non-Solicit:

During your employment with the Group and for a period of one (1) year thereafter you shall make no unfavorable, disparaging or negative comment, remark or statement, whether written or oral (a "Disparaging Statement"), about the Company or any of its affiliates, officers, directors, shareholders, consultants, or employees; provided that you may give truthful testimony before a court, governmental agency, arbitration panel, or similar person or body with apparent jurisdiction and may discuss such matters in confidence with your attorney(s) and other professional advisors. During the foregoing period, the Company and its officers and directors (acting in their capacity as officers and directors of the Company) shall make no disparaging statement about you; provided that any officer or director may give truthful testimony before a court, governmental agency, arbitration panel, or similar person or body with apparent jurisdiction and may discuss such matters in confidence with their or the Company's attorney(s) and other professional advisors.

For one year following termination of your employment (i) you may not solicit, encourage, or induce or attempt to solicit, encourage, or induce any (A) current employee, marketing agent, or consultant of any of the Group to terminate his or her employment, agency, or consultancy with any member of the Group or any (B) prospective employee with whom the Company has had discussions or negotiations within six months prior to your termination of employment not to establish a relationship with any of the Group, (ii) induce or attempt to induce any current customer to terminate its relationship with any of the Group or (iii) induce any potential customer with whom the Company has had discussions or negotiations within six months prior to your termination of employment not to establish a relationship with any of the Group.

You shall use your best efforts to perform faithfully, efficiently and in compliance with the established policies and procedures and the responsibilities and duties assigned to you. You shall always act in the best interests of the Group.

Outside Employment:

Your position with the Company is a full time responsibility requiring your full loyalty and dedication. So that you can do your best, we ask that you do not work for another employer while still employed with the Company. Furthermore, the Company prohibits its employees from working for or investing money in any competitor of the Company or conducting their own business in competition with the Company, whether during Company working hours or after Company work hours.

Miscellaneous:

You represent and warrant to the Company that neither the execution, delivery and performance of this Letter Agreement and the non-disclosure and non-compete agreement nor the performance of your duties to the Company or any Group company violates or will violate the provisions of any other agreement to which you are a party or by which you are bound.

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Vishal, we hope this job offer demonstrates our commitment to create a flexible and successful partnership that works for both of us. The job deserves and requires total commitment from you. We are confident that with you on the team we can reach great heights, both now and in the future.

All issues and questions concerning the construction, validity, enforcement and interpretation of this Letter Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to the conflict of laws principles of such State. Any dispute regarding this Letter Agreement shall be resolved by binding confidential arbitration, to be held in New York, New York in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Judgment upon the award rendered by arbitrator(s) may be entered in any court having jurisdiction thereof.

This Letter Agreement may be executed and delivered via facsimile in two or more counterparts, each of which is deemed to be an original, but all of which taken together shall constitute one and the same agreement.

To indicate your acceptance of the terms of this agreement, please sign and date this Employment Letter in the space provided below on or before May 4, 2009, and return it to the undersigned on behalf of the Company.

Regards,

/s/ Rohit Kapoor

Rohit Kapoor
President and Chief Executive Officer

/s/ Vikram Talwar

Vikram Talwar
Executive Chairman

Accepted:

/s/ Vishal Chhibbar

Vishal Chhibbar

Date: 5th May, 2009

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**AMENDMENT TO
AMENDED AND RESTATED EMPLOYMENT LETTER**

The Amended and Restated Employment And Non-Competition Agreement (the "Employment Agreement"), dated as of December 16, 2008, between ExlService Holdings, Inc. (the "Company") and Rohit Kapoor, is hereby amended as follows, effective as of the date set forth below unless provided otherwise herein:

1. Increase in Base Salary. Pursuant to the provisions of Section 4(a) of the Employment Agreement, Mr. Kapoor's annual base salary is hereby increased to \$500,000 effective as of the date hereof.
2. Extension of Employment Term. The Employment Term (as defined in Section 2 of the Employment Agreement) is hereby extended to December 31, 2012.
3. Clerical Amendment. The last sentence of Section 7(f) of the Employment Agreement is amended by replacing "the Effective Date" with "September 30, 2006".
4. Increase in Auto Lease Allowance. Clause (i) of Item 3 of Schedule 6 of the Employment Agreement is amended by replacing "\$1,200" with "\$1,400."
5. Continuing Effect of the Employment Agreement. Except as expressly modified hereby, the provisions of the Employment Agreement are and shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned have acknowledged and executed this amendment to the Employment Agreement on March 16, 2010.

EXLSERVICE HOLDINGS, INC.

By: /s/ Amit Shashank
Name: Amit Shashank
Title: General Counsel

/s/ Rohit Kapoor
Rohit Kapoor

AMENDMENT AGREEMENT NUMBER 6
BETWEEN
CENTRICA PLC,
EXLSERVICE HOLDINGS, INC.
AND
EXL SERVICE.COM (INDIA) PRIVATE LIMITED
TO
AGREEMENT NUMBER CEN/2005/9464BU
FRAMEWORK AGREEMENT
FOR THE
PROVISION OF SERVICES

**AMENDMENT AGREEMENT NUMBER 6
TO
AGREEMENT NO: CEN/2005/9464/BU**

This AMENDMENT AGREEMENT is made the 1st day of April 2009 (the “**Amendment Date**”)

BETWEEN:

- (1) Centrica plc, (registered as a public limited company in England under Number 3033654), whose registered office is Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD (the “**Client**”) (for and on behalf of Client Group); and
- (2) ExlService Holdings Inc., a Delaware corporation with its principal office at 350 Park Avenue, 10th Floor, New York, NY 10022, USA (“**EXL US**”); and
- (3) exl Service.com (India) Private Limited, an Indian private limited company with its principal office at 48 Sector 58, Noida, UP201 301, India (“**EXL India**”)

RECITALS

WHEREAS, a Framework Agreement was executed between the Client, on one part and EXL US and EXL India on the other part, with an Effective Date of 25 July 2005, together with amendments 1 to 5 thereto (altogether hereinafter referred to as the “**Agreement**”); and

WHEREAS, the parties are desirous of further amending the Agreement to incorporate certain amendments in certain provisions of the Agreement.

NOW, THEREFORE, it is mutually understood and agreed by and between the parties that for and in consideration of the obligations and agreements that follow, the aforesaid Agreement is hereby amended:

Each of the recitals set forth above is hereby incorporated in the Agreement in its entirety.

All capitalized or undefined terms used in this amendment shall have the same meaning as in the Agreement.

Now it is hereby agreed that the Agreement is amended as follows with effect from the Amendment Date.

1. DEFINITIONS AND INTERPRETATION

Clause 1.1 - Definitions

1. The present definition of “Key Staff” of the Agreement stands deleted and shall be replaced by the following clause:
“the individuals to be appointed by the Contractor to the roles specified in Schedule 5 and Annex 8 of each Work Contract and any Staff appointed as Operations Manager or above. For the avoidance of doubt Key Staff does not include any Contractor “Business Leader”, Contractor’s General Manager UK/Europe, “Head of Analytics”, “Head of Transformations” or any Contractor employee senior to such positions (e.g. Contractor’s Chief Executive Officer) except to the extent such a person is specifically named in a Work Contract.”
2. The present definition of “Minimum Term” of the Agreement stands deleted and shall be replaced by the following clause:
“The Minimum Term of the Agreement shall be three years from 1 April 2009.”
4. The present definition of “Pre-Process training” of the Agreement stands deleted and shall be replaced by the following clause:
“Includes induction to the Contractor and Client, introduction to diversity training, the utilities industry in the UK and includes training on Data Protection Act and Disability Discrimination Act in addition to voice related services, comprehensive voice training including English fluency training will be provided by the Contractor”
5. The term “ProMPT” and its definition will be deleted.
6. A new term “UK Client Competitors” will be added as follows:

The present clause 1.11 is deleted and replaced with the following

1.11 If there is any ambiguity between the terms of a Work Contract, the annexes to a Works Contract, **clauses 1 to 54** of this Agreement and the Schedules, the following order of priority shall prevail:

- 1.11.1 the Work Contract;
- 1.11.2 the annexes to a Works Contract;
- 1.11.3 **clauses 1 to 54** of this Agreement;

1.11.4 the Schedules; and

1.11.5 the Agreed Documents.

3 TERM OF AGREEMENT AND OF INDIVIDUAL WORK CONTRACTS

The present clauses 3.1.1 and 3.1.2 stand deleted and are replaced by the following:

“No later than six months prior to the expiry of the Minimum Term, Client may notify the Contractor in writing that it wishes to extend the Agreement for a further period of 12 months from the date of expiry of the Minimum Term (such period being the “**First Extension Period**”).

No later than six months prior to the expiry of the First Extension Period Client may notify the Contractor in writing that it wishes to extend the Agreement for a further period of 12 months from the date of expiry of the First Extension Period (such period being the “**Second Extension Period**”).”

The present clause 3.4 (but not clauses 3.4.1 and 3.4.2) stands deleted and replaced by the following:

“Notwithstanding the above, Client may terminate this Agreement and/or any Work Contract at any time including within its Initial Term or any written agreed extension of the Initial Term provided that Client serves three (3) months’ prior written notice upon the Contractor. If Client exercises its right to terminate under this clause 3.4 in respect of a Work Contract so terminated, Client shall pay within 30 days of the date of the Work Contract terminating early termination fee limited to:”

TRANSITION PLAN

A new clause 7.14 will be inserted as follows:

“7.14 – In the event of a ramp up of FTEs in a Work Contract of *** or greater (or such lesser percentage as may be mutually agreed in writing by Client’s Head of Operations (or equivalent) and the relevant Contractor Vice President), the provisions of clauses 7.1 to 7.3 shall apply to such additional resources for a period of *** days from the effective date of such ramp up. During such *** day period no claim shall be made by Client for Service Credits with respect to such additional resources.”

11 CONTRACTOR & CLIENT WARRANTIES

Clause 11.8.9 stands deleted and is replaced by the following;

“all licences and equipment provided or procured by the Contractor for the provision of the Services are adequate and appropriate for the provision of the Services in accordance with this Agreement and shall, to the extent possible, be transferable to Client; provided that Client shall be responsible for any associated transfer or licensing fees where applicable;”

12 KPIS AND SERVICE LEVELS

Clause 12.3 stands deleted and is replaced by the following;

“The Contractor shall monitor its performance of the Services in accordance with the procedure set out in **Schedule 3, Annex 5** and **Annex 7** of each Work Contract and within ten Business Days of the end of each month the Contractor shall provide a report to Client of its performance of the Services, in particular identifying its performance of the Services when measured against KPIs.”

16 CONTRACT MANAGEMENT/KEY STAFF

Clause 16.10 (but not clauses 16.10.1 and 16.10.2) stands deleted and is replaced by;

18 CERTIFICATION

Clause 18.8 stands deleted and is replaced with the following;

“18.8 Save where agreed to the contrary by Client in writing, the Contractor shall provide certificates confirming compliance with the standards detailed in this clause 18.8 on an annual basis, such certification to be provided during the month preceding each anniversary of the Effective Date. The certification areas subject to this clause 18.8 are:

18.8.1 ISO 27001; and

18.8.2 ISO 9001.

18.8.3 SOX 18.8.3 – copies of the Sarbanes-Oxley certifications made in Contractors annual Form 10-K filed with the United States Securities and Exchange Commission”

19 PRICING

A new clause 19.3 will be inserted as follows;

“All Client and its Affiliates Work Contracts, whether under the Agreement, or not will be deemed as Grouped Work Contracts for the purposes of calculating the baseline unit pricing (i.e. before adjusting for Service delivery requirements, infrastructure and regional variations unique to any Client entity) for the same types of Services. For the avoidance of doubt, the final pricing (i.e. the actual contracted amount) for any Services for each Client entity shall be adjusted for Service delivery requirements, infrastructure, regional variations unique to each Client entity (e.g. different shift times, dual screen monitors as opposed to single, attrition variances for working nightshift, differences in bandwidth costs and geography) or material differences to contractual terms Client shall use reasonable efforts to ensure that all Affiliate Work Contracts are entered into under the Agreement. Client may in its sole discretion exclude one or more Work Contracts from this clause 19.3.”

21. PAYMENT

Clause 21.3 stands deleted and is replaced with the following;

“Subject to clause 21.5, Client shall pay in United Kingdom Pounds Sterling (or, if replaced by the Euro, in Euro (after applying the conversion mechanism determined by United Kingdom statute, regulation or direction)) by bank transfer to such United Kingdom bank account as the Contractor may notify to Client in writing from time to time (1) all invoices (other than with respect to debit notes) delivered to it in accordance with this clause 21 on or prior to the date which is *** days following the date upon which Client receives the invoice and (2) any debit notes raised by the Contractor as soon as possible (on a best endeavours basis) upon receipt of the Contractor’s invoice.” Notwithstanding anything in the Agreement to the contrary, the foreign exchange rate applied to debit note invoices shall be the closing rate set by the Reserve Bank of India on the date of the invoice.”

A new clause 21.11 will be inserted in to the Agreement as follows:

23 INTELLECTUAL PROPERTY RIGHTS

Clause 23.4 is deleted and replaced by the following:

“In relation to any Contractor IPR (i) the development of which is specifically paid for by Client, or (ii) which is embedded in the Project Materials and/or Client Materials as part of the process of actually providing the Services (but not monitoring the provision of the Services (“**Developed IPR**”)), the Contractor grants an unrestricted, irrevocable royalty free and perpetual licence for Client to use such Contractor IPR, including the right to sub-license such Contractor IPR to Affiliates and third parties, provided that this licence shall only cover the specific Developed IPR itself and nothing in this **clause 23.4** shall be taken as granting Client a licence to or right to use any other Intellectual Property Rights or software of the Contractor, whether or not Contractor IPR, including for the avoidance of doubt any software in which Contractor IPR or Developed IPR may be embedded.”

Clause 23.14 is deleted

26. INDEMNITIES AND LIMITATIONS UPON LIABILITY

Clause 26.2 in its entirety stands deleted and is replaced by the following:

31 DISPUTE RESOLUTION

Clause 31.3 stands deleted and replaced by the following

31.3- A dispute referred for determination under this **clause 31** relating to this Agreement shall be escalated internally for resolution as follows:

- i. by referral in writing (issued by either Client or the Contractor) in the first instance to the persons designated as the stage one representative being:

Stage one representative - Client’s Commercial/Contract Manager
- the Contractor’s Relationship Manager;

- ii. if a dispute is not resolved within two Business Days of its referral under **clause 31.3.1**, or such longer period as may be agreed between the parties, either Client or the Contractor may refer the dispute in the next instance to the persons designated by each party as the stage 2 representative being:

Stage 2 representatives - Client’s Head of Operations
- the Contractor’s Chief Operating Officer

- iii. if a dispute is not resolved within five Business Days of its referral under **clause 31.3.2**, or such longer period as may be agreed between the parties, either Client or the Contractor may refer the dispute in the next instance to the persons designated by each party as the stage 3 representative being:

Stage 3 representatives - Client's Managing Director
- the Contractor's Executive Chairman or Chief Executive Officer of the Contractor's

32. TERMINATION

Clause 32.3.1.1 stands deleted and is replaced by the following:

“Where *** or more of the equity securities of the Contractor become owned or under the control of a single investor who is not an investor at the date of this Agreement provided that this shall not apply to holdings of the equity securities of the Contractor by underwriters as a consequence of the initial public offering in their role as such, or holdings maintained by fund managers on behalf of unconnected groups of individual investors. Client reserves the right terminate the agreement if *** of the equity securities of the Contractor become owned by a Client Competitor.”

Clause 32.3.1.2 stands deleted.

It is hereby agreed that the clauses 32.4.1. and 32.4.2 stand deleted and are replaced by the following:

- 32.4.1 the Defaulting Party summons a meeting of its creditors, makes a proposal for a voluntary arrangement, becomes subject to any voluntary arrangement, is unable to pay its debts within the meaning of section 123 Insolvency Act 1986, has a receiver, manager, administrator or administrative receiver appointed over any of its assets, undertakings or income, has passed a resolution for its winding-up (save for the purpose of a voluntary reconstruction or amalgamation), is subject to a bona fide petition presented to any Court for its winding-up which is not contested within 60 calendar days of being presented (save for the purpose of a voluntary reconstruction or amalgamation), is subject to a bona fide petition presented to any Court for its administration, has a provisional liquidator appointed, has a proposal made for a scheme of

arrangement under section 425 Companies Act 1985 representing a compromise with its creditors or is the subject of a bona fide notice to strike off the register at Companies House or is subject to an administration order;

32.4.2 the Defaulting Party has any distraint, execution or other process levied or enforced on any of its property which is not contested or paid out within 60 calendar days of being levied or enforced;

34. FINANCIAL PROTECTION

A new clause 34.7 will be added as follows:

36. CONFIDENTIALITY

Clause 36.4 stands deleted and is replaced by the following;

“Within seven days of receipt of a written request from a party hereto, on termination of a Work Contract or this Agreement (as appropriate) each other party will, in relation to the Confidential Information held in connection with the relevant terminated Work Contract, or all Confidential Information following termination of this Agreement, return to the other parties all physical Confidential Information that is in its possession or under its custody and control and all copies thereof and will expunge any Confidential Information from any computer, word processor or other device, and all analyses, compilations, notes studies, memoranda or other documents prepared which contain Confidential Information will be destroyed and each party will deliver to the other parties a certificate signed by a director confirming compliance with the requirements of this **clause 36.4**; provided that each party’s legal department shall be entitled to retain an archival copy of the Confidential Information in order to meet such party’s legal or regulatory obligations or in order to comply with its obligations and enforce its rights hereunder.”

39. SERVICES OF CONTRACTUAL NOTICES

Clause 39.1 stands deleted and is replaced by the following:

“Any notice, demand or communication in connection with this Agreement will be in writing and may be delivered by hand, special delivery post, facsimile or email addressed to the recipient at its registered office to its address, facsimile number or email address as the case may be stated in **clause 39.4** below and will be marked for the attention of the individual(s) stated in **clause 39.4** (or such other address or facsimile number or person which the recipient has notified in writing to the sender in accordance with this **clause 39**, to be received by the sender not less than seven Business Days before the notice is dispatched).”

Clause 39.2 stands deleted and is replaced by the following:

39.2 The notice, demand or communication will be deemed to have been duly served:

39.2.1 if delivered by hand, at the time of delivery;

39.2.2 if delivered by special delivery post, 48 hours after being posted or in the case of airmail, ten Business Days after being posted;

39.2.3 if delivered by facsimile or email, at the time of transmission, provided that a confirming copy is sent by Special Delivery or Airmail post to the other party within 24 hours after transmission;

provided that, where in the case of delivery by hand or transmission by facsimile or email, such delivery or transmission occurs either after 4.00 pm GMT on a Business Day, or on a day other than a Business Day, service will be deemed to occur at 9.00 am GMT on the next following Business Day (such times being local time at the address of the recipient).

Clause 39.3 stands deleted and is replaced by the following:

39.3 Service by facsimile or email is a valid means of service only where service of the original notice, demand or communication is not required.

Clause 39.4 stands deleted and is replaced by the following:

39.4 The addresses, facsimile numbers and email addresses for the parties are as follows:

Client

FAO The Company Secretary
FAO British Gas Managing Director

Centrica plc

Millstream, Maidenhead Road,
Windsor, Berkshire, SL4 5GD

Facsimile: Upon Request

Email: (Upon Request)

Contractor

FAO The President
FAO The General Counsel

350 Park Avenue, 10th Floor, New
York, NY 10022, USA

Facsimile: (+1) 212-277-7111

Email: (Upon Request)

Clause 49 – NON-SOLICITATION

Clause 49 stands deleted and is replaced by the following:

“Save where agreed pursuant to an Exit Plan or where expressly permitted pursuant to clause 33.10 and Schedule 14, Client & Contractor each agree that they shall not during the term of this Agreement solicit for the purposes of employment members of staff of the other party. For the avoidance of doubt this shall not preclude either party from offering employment to any person approaching such party in response to a published advertisement (not specifically directed at the other party’s employees) with no inducement or solicitation on the part of such party or as otherwise mutually agreed.”

A new clause 50 Benchmarking will be inserted the Agreement as follows:

50 ***

A new clause 51 Corporate Responsibility will be added to the Agreement as follows:

51 CORPORATE RESPONSIBILITY

51.1 The Contractor will comply with the Clients Corporate Responsibility Policy (“CR Policy”) as set out in Schedule 19 in force from time to time as made available to Contractor.

51.2 The Contractor shall allow during regular business hours the Client and any auditors or other advisers to the Client to access those portions of the Contractor’s premises, personnel and relevant records dedicated to the Services as may be reasonably required in order to undertake verification of the Contractor’s compliance with the CR Policy.

51.3 The Contractor shall provide the Client (and its auditors and other advisers) with all reasonable co-operation, access and assistance in relation to each audit. During any such audit, Client shall and shall cause its auditors and advisers to (1) comply with Contractor’s security and confidentiality procedures and (2) conduct the audit with minimal disruption to Contractor’s business and operations.

51.4 The Client shall provide at least five Business Days’ notice of its intention to conduct an audit, unless Client has received notice of an alleged breach, which shall be immediately identified to the Contractor, in which case the Client shall have the right to audit without notice.

51.5 The Contractor shall use reasonable endeavours to contract with its Contractors on terms providing an equivalent level of protection to the CR Policy.

51.6 The Contractor shall, on request, provide to the Client details of its Contractors, subject to any rights of confidentiality to which the Contractor is subject.

51.7 The Contractor will at least annually audit its compliance with the CR Policy, and on request by the Client provide to the Client details of such compliance.

51.8 In the event that the Contractor fails to comply with Clause 51.7, the Contractor shall procure that the Client or its auditors or other advisers be allowed access to the relevant Contractor facilities in order to verify compliance with the CR Policy.

51.9 If the Client identifies, through an audit or otherwise, any failure by the Contractor to comply with the CR Policy, and to the extent Contractor disputes such finding, such failure is finally determined pursuant to the Dispute Resolution Procedure, the Contractor will work with the Client to agree a rectification plan; provided that any such dispute by Contractor shall be immediately escalated to the parties “Stage 3 representatives” pursuant to clause 31.3.3.

51.10 If an appropriate rectification plan cannot be mutually agreed or the Supplier fails within a reasonable time to carry out the rectification plan, this will be deemed to be a material breach of contract by the Supplier, giving rise to a right of termination by the Company under Clause 32.

A new clause 52 Exclusivity will be added to the Agreement as follows:

52 ***

A new clause 53 Change of Control of Centrica Affiliates will be added to the Agreement as follows:

53 CHANGE OF CONTROL OF CENTRICA AFFILIATES

“If Client sells or otherwise transfers ownership of an Affiliate who is using Contractor services, Client shall notify the Contractor of such transaction and the parties shall mutually agree upon any necessary segregation of the Services to address Client’s confidentiality and security concerns with respect to such divested Affiliate; provided that Client shall be responsible for any reasonable costs incurred by Contractor to segregate the Services.”

A new clause 54 Corporate Social Responsibility will be added to the Agreement as follows:

54 ***

AS WITNESS the hands of the duly authorised representatives of the parties on the date stated at the beginning of this Amendment Agreement 6.

SIGNED by Nick Luff)
duly authorised to sign for and on behalf of)
CENTRICA plc)

in the presence of:)

SIGNED by Rohit Kapoor)
duly authorised to sign for and on behalf of)
EXL SERVICE HOLDINGS, INC.)

in the presence of:)

SIGNED by Vikram Talwar)
duly authorised to sign for and on behalf of)
EXL Service.com (India) Private Limited)

in the presence of:)

Subsidiaries of the Registrant

<u>Name of Subsidiary</u>	<u>Jurisdiction</u>
ExlService.com, Inc.	Delaware
ExlService Philippines, Inc.	Philippines
exlService.com (India) Private Limited	India
Exl Support Services Private Limited	India
ExlService (U.K.) Limited	United Kingdom
ExlService Mauritius Limited	Mauritius
ExlService SEZ BPO Solutions Private Limited	India
ExlService Romania Private Limited S.R.L.	Romania
ExlService Czech Republic S.R.O.	Czech Republic
Inductis Inc.	Delaware
Inductis LLC	Delaware
Inductis India Private Limited	India
Inductis (Singapore) PTE Limited	Singapore

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-162335) and the Registration Statement (Form S-8 No. 333-139211 and No. 333-157076) pertaining to the 2003 Stock Option Plan, 2003 India Stock Employee Option Plan, 2006 Omnibus Award Plan, 2006 Omnibus India Subplan 1 and 2006 Omnibus India Subplan 2 of ExlService Holdings, Inc. of our reports dated March 16, 2010, with respect to the consolidated financial statements of ExlService Holdings, Inc., and the effectiveness of internal control over financial reporting of ExlService Holdings, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2009.

/s/ Ernst & Young LLP

New York, New York
March 16, 2010

SECTION 302 CERTIFICATION

I, Vikram Talwar, certify that:

1. I have reviewed this annual report of ExlService Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2010

/s/ Vikram Talwar

Vikram Talwar
Executive Chairman

SECTION 302 CERTIFICATION

I, Vishal Chhibbar, certify that:

1. I have reviewed this annual report of ExlService Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2010

/s/ Vishal Chhibbar

Vishal Chhibbar
Chief Financial Officer

SECTION 302 CERTIFICATION

I, Rohit Kapoor, certify that:

1. I have reviewed this annual report of ExlService Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2010

/s/ Rohit Kapoor

Rohit Kapoor

President and Chief Executive Officer

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of ExlService Holdings, Inc. (the "Company") on Form 10-K for the year ended December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Vikram Talwar, Executive Chairman of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Vikram Talwar

Vikram Talwar
Executive Chairman

March 16, 2010

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of ExlService Holdings, Inc. (the "Company") on Form 10-K for the year ended December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Vishal Chhibbar, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Vishal Chhibbar

Vishal Chhibbar
Chief Financial Officer

March 16, 2010

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of ExlService Holdings, Inc. (the "Company") on Form 10-K for the year ended December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rohit Kapoor, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Rohit Kapoor

Rohit Kapoor
President and Chief Executive Officer

March 16, 2010