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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED **September 30, 2014**

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)

82-0572194

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

**280 PARK AVENUE, 38TH FLOOR
NEW YORK, NEW YORK**

(Address of principal executive offices)

10017

(Zip code)

(212) 277-7100

(Registrant's telephone number, including area code)

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

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

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

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

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

As of October 27, 2014, there were 32,846,021 shares of the registrant’s common stock outstanding (excluding 1,297,885 shares held in treasury stock), par value \$0.001 per share.

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EXLSERVICE HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 161,428	\$ 148,065
Short-term investments	6,561	5,987
Restricted cash	1,082	423
Accounts receivable, net	75,685	76,121
Prepaid expenses	4,126	5,168
Deferred tax assets, net	4,691	6,958
Advance income tax, net	7,817	2,024
Other current assets	11,694	7,881
Total current assets	<u>273,084</u>	<u>252,627</u>
Fixed assets, net	45,307	34,564
Restricted cash	3,263	3,568
Deferred tax assets, net	11,017	12,254
Intangible assets, net	30,545	34,115
Goodwill	112,203	107,407
Other assets	23,139	18,897
Total assets	<u>\$ 498,558</u>	<u>\$ 463,432</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,343	\$ 4,714
Deferred revenue	8,039	8,618
Accrued employee cost	28,044	29,405
Accrued expenses and other current liabilities	33,615	32,219
Current portion of capital lease obligations	1,022	1,119
Total current liabilities	<u>74,063</u>	<u>76,075</u>
Capital lease obligations, less current portion	850	1,371
Non-current liabilities	14,530	19,812
Total liabilities	<u>89,443</u>	<u>97,258</u>
Commitments and contingencies (See Note 15)		
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, 34,122,806 shares issued and 32,777,971 shares outstanding as of September 30, 2014 and 33,342,312 shares issued and 32,172,183 shares outstanding as of December 31, 2013	34	33
Additional paid-in-capital	228,009	214,522
Retained earnings	261,964	236,979
Accumulated other comprehensive loss	(52,928)	(60,718)
Total stockholders' equity including shares held in treasury	<u>437,079</u>	<u>390,816</u>
Less: 1,297,885 shares as of September 30, 2014 and 1,170,129 shares as of December 31, 2013, held in treasury, at cost	<u>(27,964)</u>	<u>(24,642)</u>
Total stockholders' equity	<u>409,115</u>	<u>366,174</u>
Total liabilities and stockholders' equity	<u>\$ 498,558</u>	<u>\$ 463,432</u>

See accompanying notes

EXLSERVICE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except share and per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenues	\$ 122,457	\$ 122,315	\$ 363,992	\$ 354,329
Cost of revenues (exclusive of depreciation and amortization)	84,983	72,049	241,164	218,892
Gross profit	37,474	50,266	122,828	135,437
Operating expenses:				
General and administrative expenses	15,952	15,791	46,992	44,265
Selling and marketing expenses	9,117	8,993	28,812	27,884
Depreciation and amortization	7,014	5,969	20,049	18,843
Total operating expenses	32,083	30,753	95,853	90,992
Income from operations	5,391	19,513	26,975	44,445
Other income/(expense) :				
Foreign exchange income/(loss)	642	(2,508)	(328)	(3,126)
Interest and other income, net	1,044	465	2,861	1,761
Income before income taxes	7,077	17,470	29,508	43,080
Income tax provision	1,002	4,230	4,523	10,842
Net income	\$ 6,075	\$ 13,240	\$ 24,985	\$ 32,238
Earnings per share:				
Basic	\$ 0.18	\$ 0.40	\$ 0.76	\$ 0.98
Diluted	\$ 0.18	\$ 0.39	\$ 0.74	\$ 0.95
Weighted-average number of shares used in computing earnings per share:				
Basic	32,890,475	32,907,281	32,743,384	32,737,267
Diluted	33,676,665	33,955,445	33,594,304	33,859,525

See accompanying notes.

EXLSERVICE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(Unaudited)
(In thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income	\$ 6,075	\$ 13,240	\$ 24,985	\$ 32,238
Other comprehensive income/(loss):				
Unrealized income/(loss) on effective cash flow hedges, net of taxes (\$758), (\$1,359), \$1,428 and (\$3,048), respectively	(2,844)	(4,851)	4,522	(12,138)
Foreign currency translation adjustment	(6,206)	(7,588)	(1,394)	(21,194)
Reclassification adjustments				
Realized loss on cash flow hedges, net of taxes \$312, \$422, \$1,293 and \$1,211, respectively ⁽¹⁾	1,106	910	4,584	2,619
Retirement benefits, net of taxes \$6, \$7, \$21 and \$24, respectively ⁽²⁾	23	25	78	82
Total other comprehensive income/(loss):	(7,921)	(11,504)	7,790	(30,631)
Total comprehensive income/(loss):	\$ (1,846)	\$ 1,736	\$ 32,775	\$ 1,607

(1) These are reclassified to net income and are included in the foreign exchange gain/(loss) in the unaudited consolidated statements of income. See Note 7 to the unaudited consolidated financial statements.

(2) These are reclassified to net income and are included in the computation of net periodic pension costs in the unaudited consolidated statements of income. See Note 10 to the unaudited consolidated financial statements.

See accompanying notes.

EXLSERVICE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)
(In thousands)

	Nine months ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 24,985	\$ 32,238
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,049	18,843
Stock-based compensation expense	8,518	9,472
Amortization of deferred financing costs	53	114
Unrealized foreign exchange loss/(gain)	917	(7,792)
Deferred income taxes	388	1,829
Gain on sale of fixed assets	(88)	—
Loss on sale of business unit	—	190
Non-controlling interest	—	2
Change in operating assets and liabilities:		
Restricted cash	(368)	(68)
Accounts receivable	839	(1,459)
Prepaid expenses and other current assets	(1,891)	(3,962)
Accounts payable	(790)	(1,163)
Deferred revenue	(599)	(2,521)
Accrued employee cost	(2,598)	(3,343)
Accrued expenses and other liabilities	2,849	(1,853)
Advance income tax, net	(5,504)	2,474
Other assets	(2,455)	1,229
Net cash provided by operating activities	44,305	44,230
Cash flows from investing activities:		
Purchase of fixed assets	(23,762)	(11,735)
Business acquisition (net of cash acquired)	(6,244)	(1,183)
Purchase of short-term investments	(7,601)	(1,692)
Proceeds from redemption of short-term investments	6,986	1,016
Net cash used for investing activities	(30,621)	(13,594)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(807)	(1,230)
Payment for purchase of non-controlling interest	—	(27)
Acquisition of treasury stock	(3,322)	(389)
Proceeds from exercise of stock options	4,970	4,624
Net cash provided by financing activities	841	2,978
Effect of exchange rate changes on cash and cash equivalents	(1,162)	(4,258)
Net increase in cash and cash equivalents	13,363	29,356
Cash and cash equivalents, beginning of period	148,065	103,037
Cash and cash equivalents, end of period	\$ 161,428	\$ 132,393

See accompanying notes.

EXLSERVICE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2014
(Unaudited)
(In thousands, except share and per share amounts)

1. Organization and Basis of Presentation

Organization

ExlService Holdings, Inc. (“ExlService Holdings”) is organized as a corporation under the laws of the state of Delaware. ExlService Holdings, together with its subsidiaries (collectively, the “Company”), is a leading provider of business process solutions, utilizing operations management, analytics and technology. The Company’s clients are located principally in the U.S. and the U.K.

Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by US GAAP for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

The preparation of the unaudited consolidated financial statements in conformity with US GAAP 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 unaudited consolidated financial statements and the unaudited consolidated statements of income during the reporting period. Although these estimates are based on management’s best assessment of the current business environment, actual results may be different from those estimates. The significant estimates and assumptions that affect the financial statements include, but are not limited to, allowance for doubtful receivables, service tax receivables, assets and obligations related to employee benefit plans, deferred tax valuation allowances, income-tax uncertainties and other contingencies, valuation of derivative financial instruments, stock-based compensation expense, depreciation and amortization periods, purchase price allocation, recoverability of long-term assets including goodwill and intangibles, and estimates to complete the fixed price contracts.

Revenue Recognition

On November 1, 2013, the Company received a notice of termination from The Travelers Indemnity Company (“Travelers”) under the Professional Services Agreement, dated as of March 7, 2006, between the Company and Travelers (as amended from time to time, the “Services Agreement”), and is required to provide transition services for a period of up to eighteen months, including reimbursing Travelers for certain of their transition related expenses. The Company recognized \$9,626 and \$17,815, respectively, of such reimbursements as a reduction of revenues during the three and nine months ended September 30, 2014 in accordance with Accounting Standards Codification (ASC) topic 605-50-45, “*Revenue Recognition*.” No such payments were made during the three and nine months ended September 30, 2013 (refer to Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations for further details).

Software Development Costs

Costs incurred for developing software or enhancements to the existing software products to be sold are capitalized, including the salaries and benefits of employees that are directly involved in the installation and development, once technological feasibility has been established upon completion of a detailed design program or, in its absence, completion of a working model. The capitalized costs are amortized on a straight-line basis over the estimated useful life. Costs associated with preliminary project stage activities, training, maintenance and all post-implementation stage activities are expensed as incurred.

EXLSERVICE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
September 30, 2014
(Unaudited)
(In thousands, except share and per share amounts)

Recent Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board (“the FASB”) issued Accounting Standards Update (“ASU”) No. 2013-05, “*Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*” (“ASU 2013-05”). ASU 2013-05 applies to the release of the currency translation adjustment into net income when a parent either sells a part of all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. ASU 2013-05 became effective from January 1, 2014 and the new guidance did not have any material impact on the Company’s unaudited consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, “*Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*” (“ASU 2013-11”). The provisions of the rule require an unrecognized tax benefit to be presented as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward except in circumstances when the carryforward or tax loss is not available at the reporting date under the tax laws of the applicable jurisdiction to settle any additional income taxes or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purposes. When those circumstances exist, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU No. 2013-11 became effective from January 1, 2014 and the new guidance did not have any material impact on the Company’s unaudited consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, “*Revenue from Contracts with Customers*” (“ASU 2014-09”). The new standard is effective for reporting periods beginning after December 15, 2016 and early adoption is not permitted. The comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. Adoption of the new rules could affect the timing of revenue recognition for certain transactions of the Company. ASU 2014-09 is effective for the Company in the first quarter of fiscal 2017 using either one of two methods: (i) retrospectively to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. The Company is currently evaluating the impact of adoption and the implementation approach to be used.

In June 2014, the FASB issued ASU No. 2014-12, “*Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*” (“ASU 2014-12”). The amendments in ASU 2014-12 require that a performance target in a share based payment that affects vesting and that could be achieved after the requisite service period should be accounted for as a performance condition. The amendments in ASU 2014-12 are effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods with early adoption permitted. Entities may apply the amendments in ASU 2014-12 either: (a) prospectively to all awards granted or modified after the effective date; or (b) modified retrospectively to all awards with performance targets that are outstanding on or after the beginning of the first annual period presented as of the adoption date. ASU 2014-12 is not applicable to the Company’s current stock based compensation plan and it does not expect this guidance to have any impact on the consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “*Presentation of Financial Statements (Subtopic 205-40), Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*” (“ASU 2014-15”). ASU 2014-15 requires management to evaluate whether there are conditions and events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the financial statements are issued and, if so, disclose that fact. Such evaluation is to be done for both annual and interim reporting periods, if applicable. Management is also required to evaluate and disclose whether its plans alleviate that doubt. ASU 2014-15 will become effective from January 1, 2017 and the Company is currently evaluating the impact of adopting this guidance.

EXLSERVICE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
September 30, 2014
(Unaudited)
(In thousands, except share and per share amounts)

Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	September 30, 2014	December 31, 2013
Accrued expenses	\$ 21,285	\$ 20,607
Derivative instruments	2,858	7,689
Other current liabilities	9,472	3,923
Accrued expenses and other current liabilities	<u>\$ 33,615</u>	<u>\$ 32,219</u>

Non-current liabilities

Non-current liabilities consist of the following:

	September 30, 2014	December 31, 2013
Derivative instruments	\$ 1,384	\$ 5,606
Unrecognized tax benefits	2,822	4,776
Deferred rent	5,936	4,973
Retirement benefits	1,680	3,543
Other non-current liabilities	2,708	914
Non-current liabilities	<u>\$ 14,530</u>	<u>\$ 19,812</u>

3. Earnings Per Share

Basic earnings per share is computed by dividing net income to common stockholders by the weighted average number of common shares outstanding during each period. Diluted earnings per share is 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, using the treasury stock method. Stock options, restricted stock and restricted stock units that are anti-dilutive are excluded from the computation of weighted average shares outstanding.

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Numerators:				
Net income	\$ 6,075	\$ 13,240	\$ 24,985	\$ 32,238
Denominators:				
Basic weighted average common shares outstanding	32,890,475	32,907,281	32,743,384	32,737,267
Dilutive effect of share based awards	786,190	1,048,164	850,920	1,122,258
Diluted weighted average common shares outstanding	<u>33,676,665</u>	<u>33,955,445</u>	<u>33,594,304</u>	<u>33,859,525</u>
Earnings per share:				
Basic	\$ 0.18	\$ 0.40	\$ 0.76	\$ 0.98
Diluted	\$ 0.18	\$ 0.39	\$ 0.74	\$ 0.95
Weighted average common shares considered anti-dilutive in computing diluted earnings per share	43,950	219,189	143,096	242,269

EXLSERVICE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
September 30, 2014
(Unaudited)
(In thousands, except share and per share amounts)

4. Segment Information

The Company provides various types of business process solutions utilizing operations management, analytics and technology. These services are provided in an integrated manner to clients in various industries. The chief operating decision maker (the “CODM”) generally reviews financial information at the consolidated statement of income level disaggregated by our two segments (Outsourcing Services and Transformation Services), but does not review any information except for revenues and cost of revenues for these 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. The Company’s recent acquisition of Blue Slate Ventures, LLC (“Blue Slate”) is classified within the transformation services segment.

Revenues and cost of revenues for each of the three months ended September 30, 2014 and 2013 for the Company’s outsourcing services and transformation services segments, respectively, are as follows:

	<u>Three months ended September 30, 2014</u>			<u>Three months ended September 30, 2013</u>		
	<u>Outsourcing Services</u>	<u>Transformation Services</u>	<u>Total</u>	<u>Outsourcing Services</u>	<u>Transformation Services</u>	<u>Total</u>
Revenues	\$ 91,155	\$ 31,302	\$122,457	\$ 99,672	\$ 22,643	\$122,315
Cost of revenues (exclusive of depreciation and amortization)	<u>62,870</u>	<u>22,113</u>	<u>84,983</u>	<u>56,531</u>	<u>15,518</u>	<u>72,049</u>
Gross profit	<u>\$ 28,285</u>	<u>\$ 9,189</u>	<u>\$ 37,474</u>	<u>\$ 43,141</u>	<u>\$ 7,125</u>	<u>\$ 50,266</u>
Operating expenses			32,083			30,753
Other income/(expense)			1,686			(2,043)
Income tax provision			<u>1,002</u>			<u>4,230</u>
Net income			<u>\$ 6,075</u>			<u>\$ 13,240</u>

Revenues and cost of revenues for each of the nine months ended September 30, 2014 and 2013 for the Company’s outsourcing services and transformation services segments, respectively, are as follows:

	<u>Nine months ended September 30, 2014</u>			<u>Nine months ended September 30, 2013</u>		
	<u>Outsourcing Services</u>	<u>Transformation Services</u>	<u>Total</u>	<u>Outsourcing Services</u>	<u>Transformation Services</u>	<u>Total</u>
Revenues	\$ 285,560	\$ 78,432	\$363,992	\$ 294,573	\$ 59,756	\$354,329
Cost of revenues (exclusive of depreciation and amortization)	<u>184,263</u>	<u>56,901</u>	<u>241,164</u>	<u>175,490</u>	<u>43,402</u>	<u>218,892</u>
Gross profit	<u>\$ 101,297</u>	<u>\$ 21,531</u>	<u>\$122,828</u>	<u>\$ 119,083</u>	<u>\$ 16,354</u>	<u>\$135,437</u>
Operating expenses			95,853			90,992
Other income/(expense)			2,533			(1,365)
Income tax provision			<u>4,523</u>			<u>10,842</u>
Net income			<u>\$ 24,985</u>			<u>\$ 32,238</u>

EXLSERVICE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
September 30, 2014
(Unaudited)
(In thousands, except share and per share amounts)

5. Business Combinations, Goodwill and Intangible Assets

On July 1, 2014, the Company entered into a membership interest purchase agreement (the “Agreement”) with Blue Slate, a provider of Business Process Management and Technology Solutions that specializes in transforming operations through business process automation, use of innovative technologies, data integration and analytics. Pursuant to the Agreement, the Company has purchased all of the membership interests of Blue Slate Solutions, LLC from Blue Slate for a cash consideration of \$6,986, including working capital adjustments of \$751. The Company has also issued 46,950 restricted shares of common stock with an aggregate fair value of \$1,375 to certain key members of Blue Slate, each of whom have accepted employment positions with the Company upon consummation of the combination.

Blue Slate’s approach bolsters the Company’s strategy of embedding process automation and operational analytics into client offerings. As the Company pursues this approach through Business EXLerator Framework, Blue Slate brings the ability to work directly on clients’ core, mission-critical applications inside their IT environments to transform their business processes. This strengthens the Company’s position with regard to IT services providers that have strong technology foundations and enriches the Company’s value proposition to clients in addition to using the Company’s capabilities to deliver greater impact for its client base. Accordingly, the Company paid a premium for the acquisition which is being reflected in the goodwill recognized from the purchase price allocation of the total consideration paid by the Company.

The Company’s preliminary purchase price allocation for the acquisition is as follows:

	<u>Amount</u> <u>(In thousands)</u>
Net tangible assets	\$ 1,313
Identifiable intangible assets:	
Customer relationships	575
Non-compete agreement	48
Trade names and trademarks	267
Goodwill	4,783
Total purchase price*	<u>\$ 6,986</u>

* Includes \$750 deposited in escrow accounts in connection with the acquisition.

The customer relationships, non-compete agreements and trade names and trademarks intangibles from the Blue Slate acquisition are being amortized over a useful life of five years, four years and three years, respectively.

During the nine months ended September 30, 2014 the company recognized \$125 of acquisition related costs. Such amounts are included under general and administrative expenses in the unaudited consolidated statements of income.

The amount of goodwill recognized from the Blue Slate acquisition is deductible for tax purposes.

EXLSERVICE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
September 30, 2014
(Unaudited)
(In thousands, except share and per share amounts)

Goodwill

The following table sets forth details of the Company's goodwill balance as of September 30, 2014:

	<u>Outsourcing Services</u>	<u>Transformation Services</u>	<u>Total</u>
Balance at January 1, 2013	\$ 94,163	\$ 16,785	\$ 110,948
Currency translation adjustments	(3,291)	—	(3,291)
Allocation on sale of a business unit (1)	(250)	—	(250)
Balance at December 31, 2013	\$ 90,622	\$ 16,785	\$ 107,407
Goodwill arising from Blue Slate acquisition	—	4,783	4,783
Currency translation adjustments	13	—	13
Balance at September 30, 2014	<u>\$ 90,635</u>	<u>\$ 21,568</u>	<u>\$ 112,203</u>

(1) Relates to the sale of a business unit (acquired with the acquisition of Business Process Outsourcing Inc.) during the year ended December 31, 2013. The net loss recognized from the sale of this business unit is \$190 and is included under "other income/ (expense)" in the consolidated statements of income for the year ended December 31, 2013 included in the Company's annual report on Form 10-K for the year ended December 31, 2013.

Intangible Assets

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

	<u>As of September 30, 2014</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Customer relationships	\$39,189	\$ (15,505)	\$ 23,684
Leasehold benefits	2,988	(1,668)	1,320
Developed technology	6,013	(2,036)	3,977
Non-compete agreements	1,365	(1,320)	45
Trade names and trademarks	3,590	(2,071)	1,519
	<u>\$53,145</u>	<u>\$ (22,600)</u>	<u>\$ 30,545</u>
	<u>As of December 31, 2013</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Customer relationships	\$38,614	\$ (12,201)	\$ 26,413
Leasehold benefits	2,986	(1,455)	1,531
Developed technology	6,013	(1,458)	4,555
Non-compete agreements	1,316	(1,316)	—
Trade names and trademarks	3,322	(1,706)	1,616
	<u>\$52,251</u>	<u>\$ (18,136)</u>	<u>\$ 34,115</u>

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Amortization expense for the three months ended September 30, 2014 and 2013 was \$1,441 and \$1,534, respectively. Amortization expense for the nine months ended September 30, 2014 and 2013 was \$4,467 and \$4,764, respectively. The weighted average life of intangible assets was 8.9 years for customer relationships, 8.0 years for leasehold benefits, 8.0 years for developed technology, 4.0 years for non-compete agreements and 4.4 years for trade names and trademarks excluding indefinite life trade names and trademarks. The Company had \$900 of indefinite lived trade names and trademarks as of September 30, 2014 and December 31, 2013.

Estimated amortization of intangible assets during the year ending September 30,	
2015	\$5,760
2016	\$5,760
2017	\$5,729
2018	\$5,543
2019	\$5,405

6. Fair Value Measurements

Assets and Liabilities Measured at Fair Value

The following table sets forth the Company's assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2014 and December 31, 2013. The table excludes short-term investments, accounts receivable, accounts payable and accrued expenses for which fair values approximate their carrying amounts.

As of September 30, 2014	Level 1	Level 2	Level 3	Total
Assets				
Money market and mutual funds	\$114,072	\$ —	\$ —	\$114,072
Derivative financial instruments	—	3,634	—	3,634
Total	<u>\$114,072</u>	<u>\$ 3,634</u>	<u>\$ —</u>	<u>\$117,706</u>
Liabilities				
Derivative financial instruments	\$ —	\$ 4,327	\$ —	\$ 4,327
Total	<u>\$ —</u>	<u>\$ 4,327</u>	<u>\$ —</u>	<u>\$ 4,327</u>
As of December 31, 2013	Level 1	Level 2	Level 3	Total
Assets				
Money market and mutual funds	\$116,662	\$ —	\$ —	\$116,662
Derivative financial instruments	—	957	—	957
Total	<u>\$116,662</u>	<u>\$ 957</u>	<u>\$ —</u>	<u>\$117,619</u>
Liabilities				
Derivative financial instruments	\$ —	\$13,295	\$ —	\$ 13,295
Total	<u>\$ —</u>	<u>\$13,295</u>	<u>\$ —</u>	<u>\$ 13,295</u>

Derivative Financial Instruments: The Company's derivative financial instruments consist of foreign currency forward exchange contracts. Fair values for derivative financial instruments are based on independent sources including highly rated financial institutions and are classified as Level 2. See Note 7 for further details on derivatives and hedge accounting.

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7. Derivatives and Hedge Accounting

The Company uses derivative instruments and hedging transactions to mitigate exposure to 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. The Company's derivative financial instruments are largely forward foreign exchange contracts that are designated effective and that qualify as cash flow hedges under FASB Accounting Standard Codification ("ASC") 815, "Derivatives and Hedging" ("ASC 815"). The Company also uses derivatives consisting of foreign currency exchange contracts not designated as hedging instruments under ASC 815 to hedge intercompany balances and other monetary assets or liabilities denominated in currencies other than the functional currencies of various subsidiaries of the Company. The Company's primary exchange rate exposure is with the Indian Rupee, the U.K. pound sterling and the Philippine peso. The Company also has exposure to the Czech koruna and other local currencies in which it operates.

The Company had outstanding foreign exchange contracts totaling \$302,400 and GBP 11,090 as of September 30, 2014 and \$262,085 and GBP 10,973 as of December 31, 2013. The Company estimates that approximately \$1,494 of net derivative losses included in accumulated other comprehensive loss ("AOCI") could be reclassified into earnings within the next twelve months based on exchange rates prevailing as of September 30, 2014. As of September 30, 2014, the maximum outstanding term of derivative instruments that hedge forecasted transactions was forty-five months.

The Company evaluates the 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 unaudited consolidated statements of income and is included in foreign exchange loss. For hedging positions 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 such significant amounts of gains or losses were reclassified from AOCI into earnings during the three and nine months ended September 30, 2014 and 2013.

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

Derivatives designated as hedging instruments

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
Other current assets:		
Foreign currency exchange contracts	\$ 1,364	\$ 437
Other assets:		
Foreign currency exchange contracts	\$ 2,270	\$ 423
Accrued expenses and other current liabilities:		
Foreign currency exchange contracts	\$ 2,858	\$ 7,689
Other non-current liabilities:		
Foreign currency exchange contracts	\$ 1,384	\$ 5,606

Derivatives not designated as hedging instruments:

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
Other current assets:		
Foreign currency exchange contracts		\$ 97
Accrued expenses and other current liabilities:		
Foreign currency exchange contracts	\$ 85	

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The following tables set forth the effect of foreign currency exchange contracts on the unaudited consolidated statements of income for the three months ended September 30, 2014 and 2013:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in AOCI on Derivative (Effective Portion)		Location of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)		Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2014	2013		2014	2013		2014	2013
	Foreign exchange contracts	\$ (3,602)		\$ (6,210)	Foreign exchange income/(loss)		\$ (1,418)	\$ (1,332)

Derivatives not designated as Hedging Instruments	Amount of Gain/(Loss) Recognized in Income on Derivatives	
	2014	2013
Foreign exchange contracts	\$ (9)	\$ (2,169)

The following tables set forth the effect of foreign currency exchange contracts on the unaudited consolidated statements of income for the nine months ended September 30, 2014 and 2013:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in AOCI on Derivative (Effective Portion)		Location of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)		Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2014	2013		2014	2013		2014	2013
	Foreign exchange contracts	\$ 5,950		\$ (15,186)	Foreign exchange income/(loss)		\$ (5,877)	\$ (3,830)

Derivatives not designated as Hedging Instruments	Amount of Gain/(Loss) Recognized in Income on Derivatives	
	2014	2013
Foreign exchange contracts	\$ 3,442	\$ (4,708)

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8. Fixed Assets

Fixed assets consist of the following:

	September 30, 2014	December 31, 2013
Owned Assets:		
Network equipment, computers and software	\$ 82,246	\$ 63,428
Buildings	1,288	1,287
Land	843	842
Leasehold improvements	26,785	24,382
Office furniture and equipment	12,769	11,111
Motor vehicles	588	507
Capital work in progress	2,734	715
	<u>127,253</u>	<u>102,272</u>
Less: Accumulated depreciation and amortization	<u>(83,110)</u>	<u>(69,242)</u>
	<u>\$ 44,143</u>	<u>\$ 33,030</u>
Assets under capital leases:		
Network equipment, computers and software	\$ —	\$ 184
Leasehold improvements	1,955	1,955
Office furniture and equipment	923	1,079
Motor vehicles	892	934
	<u>3,770</u>	<u>4,152</u>
Less: Accumulated depreciation and amortization	<u>(2,606)</u>	<u>(2,618)</u>
	<u>\$ 1,164</u>	<u>\$ 1,534</u>
Fixed assets, net	<u>\$ 45,307</u>	<u>\$ 34,564</u>

Depreciation and amortization expense excluding amortization of acquisition-related intangibles for the three months ended September 30, 2014 and 2013 was \$5,573 and \$4,435, respectively, and \$15,582 and \$14,079 for the nine months ended September 30, 2014 and 2013, respectively.

Capital work in progress represents advances paid toward acquisitions of fixed assets and the cost of fixed assets not yet ready to be placed in service.

9. Capital Structure

The Company has one class of common stock outstanding.

During the three months ended September 30, 2014 and 2013, 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 nine months ended September 30, 2014 and 2013, the Company acquired 18,256 and 13,018 shares of common stock, respectively, from employees in connection with withholding tax payments related to the vesting of restricted stock for a total consideration of \$459 and \$389. The weighted average purchase price of \$25.14 and \$29.89, respectively, 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. The shares acquired are held as treasury stock.

During the three months ended September 30, 2014, the Company purchased 109,500 shares of its common stock for an aggregate purchase price of approximately \$2,863 including commissions, representing an average purchase price per share of \$26.14 as part of the share repurchase program that authorized the purchase of up to an aggregate principal amount of \$25,000 of the Company's outstanding common stock.

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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 plans in India and the Philippines provide a lump-sum payment to vested employees upon retirement or upon 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 plans are determined by actuarial valuation using the projected unit credit method. Current service costs for the gratuity plans 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.

Net gratuity cost includes the following components:

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Service cost	\$ 355	\$ 266	\$ 1,083	\$ 867
Interest cost	125	103	385	339
Expected return on plan assets	(43)	(38)	(130)	(125)
Actuarial loss	29	32	99	106
Net gratuity cost	<u>\$ 466</u>	<u>\$ 363</u>	<u>\$ 1,437</u>	<u>\$ 1,187</u>

The gratuity plans in India are partially funded and are managed and administered by Life Insurance Corporation of India and HDFC Standard Life Insurance Company. These entities calculate the annual contribution required to be made by the Company and manage the gratuity plans, including any required payouts. Fund managers manage these funds on a cash accumulation basis and declare interest retrospectively on March 31st of each year. The Company earned a return of approximately 9.0% and 9.5% on these gratuity plans for the year ended March 31, 2014 and March 31, 2013, respectively.

Change in Plan Assets

Plan assets at January 1, 2014	\$2,156
Employer contribution	2,534
Expected return	148
Benefits paid*	—
Effect of exchange rate changes	<u>(1)</u>
Plan assets at September 30, 2014	<u>\$4,837</u>

* Benefit payments were made directly by the Company and not through the plan assets during the three and nine months ended September 30, 2014.

The Company maintains the Exl Service Inc. 401(k) Plan 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 has made provisions for contributions to the 401(k) Plan amounting to \$192 and \$370 during the three month periods ended September 30, 2014 and 2013, respectively, and \$1,037 and \$1,343 during the nine month periods ended September 30, 2014 and 2013, respectively.

During the three and nine month periods ended September 30, 2014 and 2013, the Company contributed the following amounts to various defined contribution plans on behalf of its employees in India, the Philippines, Romania, Bulgaria, and the Czech Republic:

Three months ended September 30, 2014	\$1,418
Three months ended September 30, 2013	\$1,289
Nine months ended September 30, 2014	\$4,279
Nine months ended September 30, 2013	\$4,149

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11. Leases

The Company finances its use of certain leasehold improvements, furniture, fixtures, office equipment and motor vehicles under various lease arrangements provided by financial institutions. Future minimum lease payments under these capital leases as of September 30, 2014 are as follows:

Year ending September 30,	
2015	\$1,164
2016	692
2017	184
2018	42
Total minimum lease payments	2,082
Less: amount representing interest	210
Present value of minimum lease payments	1,872
Less: current portion	1,022
Long term capital lease obligation	<u>\$ 850</u>

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 September 30, 2014 are set forth below:

Year ending September 30,	
2015	\$ 9,777
2016	6,978
2017	2,409
2018	1,728
2019	1,300
2020 and thereafter	178
	<u>\$22,370</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 non-cancelable lease period determined under ASC 840. Rent expense under both cancelable and non-cancelable operating leases was \$4,897 and \$4,264 for the three months ended September 30, 2014 and 2013, respectively, and \$14,153 and \$13,049 for the nine months ended September 30, 2014 and 2013, respectively. Deferred rent as of September 30, 2014 and December 31, 2013 was \$6,528 and \$5,394, respectively, and is included under "Accrued expenses and other current liabilities" and "Non-current liabilities" in the consolidated balance sheets.

12. Income Taxes

The Company determines the tax provision for interim periods using an estimate of its annual effective tax rate adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter, the Company updates its estimate of its annual effective tax rate, and if its estimated tax rate changes, the Company makes a cumulative adjustment.

The Company recorded an income tax expense of \$1,002 and \$4,230 for the three months ended September 30, 2014 and 2013, respectively. Income tax expense for the nine months ended September 30, 2014 and 2013 was \$4,523 and \$10,842, respectively. The effective tax rate decreased from 24.2% during the three months ended September 30, 2013 to 14.2% during the three months ended September 30, 2014. The effective tax rate decreased from 25.2% during the nine months ended September 30, 2013 to 15.3% during the nine months ended September 30, 2014, primarily due to the reversal of an unrecognized tax benefit of \$2,173 during the quarter ended June 30, 2014 as a result of judicial rulings handed down during the quarter involving unaffiliated companies regarding similar tax matters. In the Company's judgment, such rulings increased the level of certainty that its position

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on these tax adjustments proposed by the tax authorities would more likely than not be resolved in favor of the Company. The effective tax rate was further decreased during the nine months ended September 30, 2014 due to lower income in the U.S. due to the reimbursement of disentanglement costs to Travelers under the Services Agreement (refer to Item 2 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for further details).

The following table summarizes the activity related to the gross unrecognized tax benefits from January 1, 2014 through September 30, 2014:

Balance as of January 1, 2014	\$ 4,913
Increases related to prior year tax positions	—
Decreases related to prior year tax positions	(2,173)
Increases related to current year tax positions	—
Decreases related to current year tax positions	—
Effect of exchange rate changes	58
Balance as of September 30, 2014	<u>\$ 2,798</u>

The unrecognized tax benefits as of September 30, 2014 of \$2,798, if recognized, would impact the effective tax rate.

During the three months ended September 30, 2014 and 2013, the Company has recognized interest of \$54 and \$52 respectively, which is included in the income tax provision in the unaudited consolidated statements of income. As of September 30, 2014 and December 31, 2013, the Company has accrued approximately \$1,024 and \$863, respectively, in interest relating to unrecognized tax benefits.

The unrecognized tax benefits may increase or decrease in the next twelve months depending on the Company’s tax position.

13. Stock-Based Compensation

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

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Cost of revenue	\$ 410	\$ 660	\$ 1,873	\$ 2,058
General and administrative expenses	985	1,142	3,285	3,958
Selling and marketing expenses	981	1,165	3,360	3,456
Total	<u>\$ 2,376</u>	<u>\$ 2,967</u>	<u>\$ 8,518</u>	<u>\$ 9,472</u>

Stock Options

The fair value of each stock option granted to employees is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	<u>Nine months ended September 30,</u>	
	<u>2014</u>	<u>2013</u>
Dividend yield	0%	0%
Expected life (years)	5.50	5.50
Risk free interest rate	1.84%	0.87%
Volatility	35%	40%

The estimated expected term of options granted has been based on historical experience, 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 stock 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.

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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, 2013	1,956,515	\$ 16.25	\$ 22,255	5.55
Granted	9,794	27.62		
Exercised	(324,534)	15.32		
Forfeited/Expired	(77,750)	24.73		
Outstanding at September 30, 2014	<u>1,564,025</u>	<u>\$ 16.09</u>	<u>\$ 13,210</u>	<u>4.65</u>
Vested and exercisable at September 30, 2014	<u>1,320,872</u>	<u>\$ 14.74</u>	<u>\$ 12,872</u>	<u>4.26</u>
Available for grant at September 30, 2014	<u>1,380,540</u>			

The unrecognized compensation cost for unvested options as of September 30, 2014 was \$1,178 which is expected to be expensed over a weighted average period of 1.13 years. The Company did not issue any stock options during the three months ended September 30, 2014 and 2013. The weighted-average fair value of options granted during the nine months ended September 30, 2014 and 2013 was \$9.77 and \$10.07, respectively. The total grant date fair value of options vested during the three months ended September 30, 2014 and 2013 was \$693 and \$541, respectively. The total grant date fair value of options vested during the nine months ended September 30, 2014 and 2013 was \$1,917 and \$2,865, respectively.

Restricted Stock and Restricted Stock Units

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

	Restricted Stock		Restricted Stock Units	
	Number	Weighted- Average Fair Value	Number	Weighted- Average Fair Value
Outstanding at December 31, 2013	—	\$ —	1,144,442	\$ 24.95
Granted	46,950	29.29	498,595	26.23
Vested	—	—	(417,010)	21.91
Forfeited	—	—	(129,430)	26.27
Outstanding at September 30, 2014*	<u>46,950</u>	<u>\$ 29.29</u>	<u>1,096,597</u>	<u>\$ 26.53</u>

* Excludes 120,000 and 112,000 vested restricted stock units as of September 30, 2014 and December 31, 2013, respectively, for which the underlying common stock is yet to be issued.

As of September 30, 2014, unrecognized compensation cost of \$23,720 is expected to be expensed over a weighted average period of 2.57 years.

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Performance Based Stock Awards

On February 13, 2014, the Compensation Committee of the Board of Directors of the Company approved the program of performance based grant of restricted stock units (“PRSUs”) for executive officers and other specified employees under its existing 2006 Omnibus Award Plan.

Under this program, the PRSUs will cliff vest at the end of a three-year period based on satisfaction of dual performance criteria: 50% of the PRSUs shall be based on a total revenue performance condition (“PUs”) measured on a cumulative basis over a three-year performance period and the other 50% shall be based on a market condition (“MUs”) that is contingent on meeting or exceeding the total shareholder return relative to a group of peer companies specified under the program, measured over a three-year performance period. In addition, up to one-third of the PUs may be earned based on the Company’s revenue performance in each of 2014 and 2015 against revenue targets in those years. The ultimate amount of PUs that the recipient earns, will be the greater of (x) the PUs earned in 2016 and (y) the sum of the earned PUs in 2014 and 2015. The award recipient may earn up to two hundred percent (200%) of the target based on the actual performance for both kinds of PRSUs.

The fair value of each PU was determined based on the market price of one common share of the Company on the date of grant, and assumes that performance targets will be achieved. The compensation expense for the PUs is recognized on a straight-line basis over the vesting terms. Over the performance period, the number of shares that will be issued will be adjusted upward or downward based upon the probability of achievement of the performance targets. The ultimate number of shares issued and the related compensation cost recognized as an expense will be based on a comparison of the final performance metrics to the specified targets.

The grant date fair value for the MUs was determined using a Monte Carlo simulation model and will be expensed on a straight-line basis over the vesting period. All compensation expense related to the MUs will be recognized if the requisite performance period is fulfilled, even if the market condition is not achieved.

The Monte-Carlo simulation model simulates a range of possible future stock prices and estimates the probabilities of the potential payouts. This model also incorporates the following ranges of assumptions:

- The historical volatilities are used over the most recent three-year period for the components of the peer group.
- The risk-free interest rate is based on the U.S. Treasury rate assumption commensurate with the three-year performance period.
- Since the plan stipulates that the awards are based upon the TSR of the Company and the components of the peer group, it is assumed that the dividends get reinvested in the issuing entity on a continuous basis.
- The correlation coefficients are used to model the way in which each entity tends to move in relation to each other are based upon the price data used to calculate the historical volatilities.

Performance restricted stock unit activity under the Company’s stock plans is shown below:

	Revenue Based PRSU’s		Market Condition Based PRSU’s	
	Number	Weighted Avg Fair Value	Number	Weighted Avg Fair Value
Outstanding at Dec 31, 2013	—	\$ —	—	\$ —
Granted	55,475	25.63	55,475	33.60
Vested	—	—	—	—
Forfeited	(7,750)	25.63	(7,750)	33.60
Outstanding at September 30, 2014	47,725	\$ 25.63	47,725	\$ 33.60

As of September 30, 2014, unrecognized compensation cost of \$2,298 is expected to be expensed over a weighted average period of 2.25 years.

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14. Geographical Information

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	2014	2013	2014	2013
Revenues				
United States	\$ 89,337	\$ 91,995	\$ 267,638	\$ 259,769
United Kingdom	26,060	23,000	74,215	70,186
Rest of World	7,060	7,320	22,139	24,374
	<u>\$ 122,457</u>	<u>\$ 122,315</u>	<u>\$ 363,992</u>	<u>\$ 354,329</u>

	<u>September 30,</u>	<u>December 31,</u>
	2014	2013
Fixed assets, net		
India	\$ 26,141	\$ 21,433
United States	6,853	3,981
Philippines	11,724	8,409
Rest of World	589	741
	<u>\$ 45,307</u>	<u>\$ 34,564</u>

15. Commitments and Contingencies

Fixed Asset Commitments

As of September 30, 2014, the Company had committed to spend approximately \$6,840 under agreements to purchase fixed assets. This amount is net of capital advances paid in respect of these purchases.

Other Commitments

Certain units of the Company's Indian subsidiaries were established as 100% Export-Oriented units under the Software Technology Parks of India ("STPI") scheme promulgated by the Government of India. These units are exempt from customs, central excise duties, and levies on imported and indigenous capital goods, stores, and spares. The Company has undertaken to pay custom duties, service taxes, levies, and liquidated damages payable, if any, in respect of imported and indigenous capital goods, stores, and spares consumed duty free, in the event that certain terms and conditions are not fulfilled. The Company's management believes, however, that these units have in the past satisfied and will continue to satisfy the required conditions.

The Company's operations centers in the Philippines are registered with the Philippine Economic Zone Authority ("PEZA"). The registration provides the Company with certain fiscal incentives on the import of capital goods and requires Exl Philippines to meet certain performance and investment criteria. The Company's management believes that these centers have in the past satisfied and will continue to satisfy the required criteria.

Contingencies

U.S. and Indian transfer pricing regulations require that any international transaction involving associated enterprises be at an arm's-length price. Accordingly, the Company determines the appropriate pricing for the international transactions among its

EXLSERVICE HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
September 30, 2014
(Unaudited)
(In thousands, except share and per share amounts)

associated enterprises on the basis of a 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 some of its subsidiaries. Further, the Company and its U.S. subsidiary are engaged in tax litigation with the income-tax authorities in India on the issue of permanent establishment.

The aggregate disputed amount demanded by Indian tax authorities from the Company related to its transfer pricing issues for various years ranging from tax years 2003 to 2010 and its permanent establishment issues ranging from tax years 2003 to 2007 as of September 30, 2014 and December 31, 2013 is \$18,015 and \$14,742, respectively, of which the Company has already made payments or provided bank guarantees to the extent of \$14,970 and \$13,797, respectively. Amounts paid as deposits in respect of such assessments aggregating to \$12,825 and \$11,653 as of September 30, 2014 and December 31, 2013, respectively, are included in “Other assets” and amounts deposited for bank guarantees aggregating to \$2,145 and \$2,144 as of September 30, 2014 and December 31, 2013, respectively, are included in “Restricted cash” in the non-current assets section of the Company’s consolidated balance sheets as of September 30, 2014 and December 31, 2013.

Based on advice from its Indian tax advisors, the facts underlying the Company’s position and its experience with these types of assessments, the Company believes that the probability that it will ultimately be found liable for these assessments 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. It is possible that the Company might receive similar orders or assessments from tax authorities for subsequent years. Accordingly even if these disputes are resolved, the Indian tax authorities may still serve additional orders or assessments.

16. Subsequent Event

Acquisition of Overland Holdings, Inc.

On October 24, 2014, pursuant to an Agreement and Plan of Merger, dated October 24, 2014, by and between ExlService.com, LLC, a Delaware limited liability company and a wholly owned subsidiary of the Company (the “Acquiror”), Heartland Acquisition Sub Corp., a Delaware corporation and a wholly owned subsidiary of the Acquiror (“Merger Sub”), Overland Holdings, Inc., a Delaware corporation (“Overland”), New Mountain Affiliated Investors, L.P., a New York limited partnership, and New Mountain Partners, L.P., a New York limited partnership (the “Plan of Merger”), the Company acquired Overland in a merger transaction. Overland specializes in premium audit services, commercial and residential underwriting surveys and loss control services to the property and casualty insurance industry.

Under the terms of the Plan of Merger and subject to the conditions set forth therein, Merger Sub merged with and into Overland and Overland survived and became a wholly owned subsidiary of the Acquiror (the “Merger”). The aggregate consideration for all the outstanding capital stock of Overland was \$53,000 in cash (the “Merger Consideration”), subject to adjustment based on working capital, Overland’s debt and certain transaction expenses. The Merger Consideration was paid with existing cash on the Company’s balance sheet. A portion of the Merger Consideration otherwise payable in the Merger was placed into escrow as security for post-closing working capital adjustments and the indemnification obligations under the Merger Agreement.

Credit Agreement

The Company and certain of its subsidiaries entered into a credit agreement with certain lenders and JPMorgan Chase Bank, N.A., as administrative agent, that became effective as of October 27, 2014 (the “Credit Agreement”). The credit agreement provides for a \$50,000 revolving credit facility. The Company has an option to increase the commitments under the credit agreement, subject to certain approvals and conditions as set forth in the credit agreement. The credit agreement also includes a letter of credit subfacility. Borrowings under the credit agreement may be used for working capital and general corporate purposes of the Company and its subsidiaries.

Depending on the type of borrowing, loans under the Credit Agreement bear interest at a rate equal to the specified prime rate (alternate base rate) or adjusted LIBO rate, plus, in each case, an applicable margin. The applicable margin is tied to the Company’s leverage ratio and ranges from 0.25% to 0.75% per annum with respect to loans (“ABR Loans”) pegged to the specified prime rate, and 1.25% to 1.75% per annum on loans (“Eurodollar Loans”) pegged to the adjusted LIBO rate (such applicable margin, the “Applicable Rate”). The revolving credit commitments under the Credit Agreement are subject to a commitment fee. The commitment fee is also tied to the Company’s leverage ratio, and ranges from 0.20% to 0.30% per annum on the average daily amount by which the aggregate revolving commitments exceed the sum of outstanding revolving loans and letter of credit obligations.

The Credit Agreement will be guaranteed by the Company’s domestic subsidiaries. The obligations under the Credit Agreement will be secured by all or substantially all of the assets of the Company and its material domestic subsidiaries.

The Credit Agreement contains customary affirmative and negative covenants (which are in some cases subject to certain exceptions), including, but not limited to, restrictions on the ability to incur additional indebtedness, create liens, make certain investments, make certain dividends and related distributions, enter into, or undertake, certain liquidations, mergers, consolidations or acquisitions and dispose of assets or subsidiaries. In addition, the Credit Agreement requires the Company to maintain a certain interest coverage ratio and a leverage ratio.

The Credit Agreement contains customary events of default (which are in some cases subject to certain exceptions, thresholds, notice requirements and grace periods), including, but not limited to, nonpayment of principal or interest, breaches of representations and warranties, failure to perform or observe covenants, cross-defaults with certain other agreements or indebtedness, final judgments or orders, certain change of control events and certain bankruptcy-related events or proceedings.

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

You should read the following discussion in connection with our unaudited consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. Some of the statements in the following discussion are forward looking statements. See "Forward Looking Statements." Dollar amounts within Item 2 are presented as actual dollar amounts.

Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward looking statements. You should not place undue reliance on these 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 and the impact of the termination of the Services Agreement (as defined below) with Travelers (as defined below). 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 Quarterly Report on Form 10-Q, you should understand that these statements are not guarantees of performance or results. They involve known and unknown risks, uncertainties and assumptions. Although we believe that these forward looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward looking statements. These factors include but are not limited to:

- our dependence on a limited number of clients in a limited number of industries;
- uncertainty regarding the impact of the termination of the Services Agreement with Travelers, the process for the transition of the Travelers services away from our facilities and our ability to re-deploy personnel and infrastructure to other clients;
- worldwide political, economic or business conditions;
- negative public reaction in the U.S. or elsewhere to offshore outsourcing;
- fluctuations in our earnings;
- our ability to attract and retain clients;
- our ability to successfully consummate or integrate strategic acquisitions;
- 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;
- 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;
- unauthorized disclosure of sensitive or confidential client and customer data; and
- adverse outcome of our disputes with the Indian tax authorities.

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

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

Executive Overview

We are a leading provider of business process solutions, utilizing operations management, analytics and technology. We use our focused industry and process expertise to create a positive business impact on our clients' operations. We customize our services to improve the economics of our clients' business performance and transform organizations to be leaner and more flexible. We break our business into two segments: outsourcing and transformation services. Our outsourcing services provide front-, middle- and back-office processing for our clients, who are primarily Global 1000 Companies. We also offer a number of transformation services including decision analytics, finance transformation and operations consulting services.

Our global delivery network, comprising highly trained industry and process specialists across the United States, Europe and Asia, is a key asset. We have operations centers in India, the U.S., the Philippines, Bulgaria, Romania and the Czech Republic. We also established two new operating centers, one in the U.S. and the other in the Philippines during the three months ended September 30, 2014.

On July 1, 2014, we acquired Blue Slate Ventures, LLC ("Blue Slate"), a provider of Business Process Management and Technology Solutions that specializes in transforming operations through business process automation, use of innovative technologies, data integration and analytics.

Revenue

On November 1, 2013, we received a notice of termination from The Travelers Indemnity Company ("Travelers") under the Professional Services Agreement, dated as of March 7, 2006, between us and Travelers (as amended from time to time, the "Services Agreement"). Due to this termination, we estimate a reduction in our 2014 revenues of between \$12 million and \$15 million due to certain services we currently provide to Travelers being transitioned away from us throughout 2014. In addition, we expect that we will reimburse Travelers for certain of their expenses incurred in connection with the termination (the "disentanglement costs"), which will further reduce our revenues in 2014. During the three months and nine months ended September 30, 2014, we recognized \$9.6 million and \$17.8 million, respectively, of reimbursement of disentanglement costs to Travelers as a reduction of revenues.

For the three months ended September 30, 2014, we had total revenues of \$122.5 million (net of \$9.6 million of reimbursement of disentanglement costs to Travelers) compared to total revenues of \$122.3 million for the three months ended September 30, 2013, an increase of \$0.2 million or 0.1%. Revenues from outsourcing services were \$91.2 million (net of \$9.6 million of reimbursement of disentanglement costs to Travelers) for the three months ended September 30, 2014 compared to \$99.7 million for the three months ended September 30, 2013. Revenues from transformation services were \$31.3 million for the three months ended September 30, 2014 compared to \$22.6 million for the three months ended September 30, 2013.

For the nine months ended September 30, 2014, we had total revenues of \$364.0 million (net of \$17.8 million of reimbursement of disentanglement costs to Travelers) compared to total revenues of \$354.3 million for the nine months ended September 30, 2013, an increase of \$9.7 million or 2.7%. Revenues from outsourcing services were \$285.6 million (net of \$17.8 million of reimbursement of disentanglement costs to Travelers) for the nine months ended September 30, 2014 compared to \$294.6 million for the nine months ended September 30, 2013. Revenues from transformation services were \$78.4 million for the nine months ended September 30, 2014 compared to \$59.8 million for the nine months ended September 30, 2013.

We serve clients mainly in the U.S. and the U.K., with these two regions generating 73.0% and 21.3%, respectively, of our total revenues for the three months ended September 30, 2014 and 75.2% and 18.8%, respectively, of our total revenues for the three months ended September 30, 2013. For the nine months ended September 30, 2014, these two regions generated 73.5% and 20.4%, respectively, of our total revenues and 73.3% and 19.8%, respectively, of our total revenues for the nine months ended September 30, 2013.

For the three months ended September 30, 2014 and 2013, total revenues from our top ten clients accounted for 52.2% and 57.1% of our total revenues, respectively. For the nine months ended September 30, 2014 and 2013, total revenues from

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our top ten clients accounted for 51.5% and 58.8% of our total revenues, respectively. None of our clients accounted for more than 10% of our total revenues during the three and nine months ended September 30, 2014 and September 30, 2013. Although we are continually increasing and diversifying our customer base, we expect in the near future that a significant portion of our revenue will continue to be contributed by a limited number of large clients.

We derived revenues from five and 21 new clients for our services in the three and nine months ended September 30, 2014, respectively, compared to eight and 18 new clients for our services in the three and nine months ended September 30, 2013, respectively. Another two clients acquired during the three months ended September 30, 2014 did not generate any revenue, but are expected to start generating revenues next quarter.

Our Business

We break our business into two segments: Outsourcing Services and Transformation Services. We market our services to our existing and prospective clients through our sales and client management teams, which are aligned by key industry verticals and cross industry domains such as finance and accounting. Our sales and client management teams operate from the U.S. and Europe.

Outsourcing Services: We provide our clients with a range of outsourcing services principally in the insurance, healthcare, utilities, banking and financial services, travel, and transportation and logistics sectors, as well as cross-industry outsourcing services, such as finance and accounting services. We serve primarily the needs of Global 1000 companies in these sectors.

Our outsourcing services involve the transfer to us of select business operations of a client, such as claims processing, policy administration and finance and accounting, after which we administer and manage the operations for our client on an ongoing basis. 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 most outsourcing services we provide, we enter into long-term agreements with our clients with typical initial terms ranging from three to eight years. These contracts also usually contain provisions permitting termination of the contract after a short notice period. 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.

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, Philippine peso/U.S. dollar and U.K. pound sterling/U.S. dollar foreign currency exposure.

We have been observing 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 and other 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 or other pricing model. Such models place the focus on operational 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 favorable 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 if we are required to modify the terms of our relationships with such clients.

Within our outsourcing services, we also offer platform technology services by use of our proprietary technology tools and platforms to provide increasingly complex services for our insurance and healthcare clients. We have added these capabilities through acquisitions over the last few years. Key platform technology offerings include CareRadius® and MaxMC® (both care management platforms for health insurers and providers), LifePRO® (an insurance policy administration platform) and SubroSource™ (a subrogation services platform for property and casualty insurers). Depending on the platform, the fees derived from our platform technologies may be based on licenses, installation, support and maintenance, and/or recoveries from claims. We believe our proprietary platform technology will be an important source of growth in the future as clients choose to transfer certain business functions to a third-party-owned technology provider.

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As we increase our capabilities utilizing technology service platforms and other software-based services, we expect that revenues from such services will continue to grow in proportion to our total revenues. Revenues from annual maintenance and support contracts for our software platforms provide us with a relatively predictable revenue base and are generally recognized ratably over the terms of the contracts. New license sales and implementation projects have a long selling cycle and it is difficult to predict the timing of when such new contracts will be signed which may lead to fluctuations in our revenues over short-term.

We anticipate that revenues from our outsourcing services will grow as we expand our service offerings and client base, both organically and through acquisitions.

Transformation Services: Our transformation services offer positive business change for our clients. By utilizing sophisticated tools and techniques and highly trained analysts, we (i) provide insight into our clients' current and future financial and operational results using analytics, (ii) improve clients' operating environments through cost reduction and increased efficiency and productivity initiatives and (iii) enhance the risk and control environments within our clients' operations whether or not they are outsourced to us. Our key areas of transformation services are decision analytics, operations and process excellence consulting and finance transformation.

Our transformation services consist of both recurring and specific projects with contract terms generally not exceeding one to three years. 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. Our transformation services can be significantly affected by variations in business cycles. We have experienced a significant increase in demand for our annuity-based transformation services, which are engagements that are contracted for one- to three-year terms.

Critical Accounting Policies and Estimates

For a description of our critical accounting policies and estimates, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" and Note 1 of the Notes to the Consolidated Financial Statements included in our 2013 Annual Report on form 10-K for the year ended December 31, 2013.

[Table of Contents](#)**Results of Operations**

The following table summarizes our results of operations for the three and nine months ended on September 30, 2014 and September 30, 2013:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(in millions)		(in millions)	
Revenues	\$ 122.5	\$ 122.3	\$364.0	\$354.3
Cost of revenues (exclusive of depreciation and amortization)	85.0	72.0	241.2	218.9
Gross profit	37.5	50.3	122.8	135.4
Operating expenses:				
General and administrative expenses	16.0	15.8	47.0	44.3
Selling and marketing expenses	9.1	9.0	28.8	27.9
Depreciation and amortization expenses	7.0	6.0	20.0	18.8
Total operating expenses	32.1	30.8	95.8	91.0
Income from operations	5.4	19.5	27.0	44.4
Other income/(expense):				
Foreign exchange income / (loss)	0.6	(2.5)	(0.3)	(3.1)
Interest and other income	1.1	0.4	2.8	1.7
Income before income taxes	7.1	17.4	29.5	43.0
Income tax provision	1.0	4.2	4.5	10.8
Net income	\$ 6.1	\$ 13.2	\$ 25.0	\$ 32.2

[Table of Contents](#)**Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013****Revenues.**

	Three months ended September 30,		Change	Percentage change
	2014	2013		
	(dollars in millions)			
Outsourcing services	\$ 91.2	\$ 99.7	\$ (8.5)	-8.5%
Transformation services	31.3	22.6	8.7	38.2%
Total revenues	\$ 122.5	\$ 122.3	\$ 0.2	0.1%

The decrease in revenues from outsourcing services of \$8.5 million was primarily due to the reimbursement of disentanglement costs to Travelers of \$9.6 million, offset by net volume increases from our existing and new clients aggregating to \$0.2 million and an increase of \$0.9 million due to the impact of the appreciation of the Indian rupee and the U.K. pound sterling against the U.S. dollar during the three months ended September 30, 2014 compared to the three months ended September 30, 2013.

The increase in revenues from transformation services of \$8.7 million was driven by revenues of \$1.5 million from the Blue Slate acquisition and a combination of increased revenues in our recurring decision analytics services and project-based engagements in our decision analytics and finance transformation services. Revenues from new clients for transformation services were \$0.2 million and \$0.4 million during the three months ended September 30, 2014 and 2013, respectively.

For the three months ended September 30, 2014 and 2013, 4.3% and 3.9%, respectively, of our revenues represented telecommunication and travel-related costs billed to and reimbursed by our clients.

Cost of Revenues.

	Three months ended September 30,		Change	Percentage change
	2014	2013		
	(dollars in millions)			
Total revenues	\$ 122.5	\$ 122.3	\$ 0.2	0.1%
Cost of revenues	85.0	72.0	13.0	18.0%
Gross Profit	\$ 37.5	\$ 50.3	\$ (12.8)	-25.5%
As a percentage of revenues	30.6%	41.1%		

The increase in cost of revenues was primarily due to an increase in employee-related costs of \$9.5 million (including \$1.0 million of employee-related costs related to the Blue Slate acquisition) as a result of an annual wage increase effective April 1, 2014, and an increase in the number of our personnel directly involved in providing services to our clients. We also experienced an increase in facilities, technology and other operating expenses of \$1.5 million (primarily due to the establishment of new operations centers to support business growth and the Blue Slate acquisition), \$0.5 million in reimbursable expenses (resulting in an increase in revenues) and \$1.4 million due to the impact of appreciation of the Indian rupee against the U.S. dollar during the three months ended September 30, 2014 compared to the three months ended September 30, 2013.

Gross Profit. The decrease in gross profit as a percentage of revenues was primarily due to the impact of reimbursement of disentanglement costs to Travelers, higher cost of revenues as mentioned above and appreciation of the Indian rupee against the U.S. dollar during the three months ended September 30, 2014 compared to the three months ended September 30, 2013.

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Selling, General and Administrative (“SG&A”) Expenses.

	Three months ended September 30,		Change	Percentage change
	2014	2013		
	(dollars in millions)			
General and administrative expenses	\$ 16.0	\$ 15.8	\$ 0.2	1.0%
Selling and marketing expenses	9.1	9.0	0.1	1.4%
Selling, general and administrative expenses	\$ 25.1	\$ 24.8	\$ 0.3	1.1%
As a percentage of revenues	20.5%	20.3%		

The increase in SG&A expenses was primarily due to an increase in employee-related costs of \$1.5 million (including \$0.5 million due to Blue Slate acquisition) due to an annual wage increase effective April 1, 2014 and our continued investment in sales and client management personnel. We also experienced an increase in facilities related costs by \$0.3 million and \$0.2 million due to the impact of appreciation of the Indian rupee against the U.S. dollar during the three months ended September 30, 2014 compared to the three months ended September 30, 2013. This increase was offset by a decrease of \$1.7 million in our other SG&A expenses, primarily due to a write off of an accounts receivable during the three months ended September 30, 2013.

Depreciation and Amortization.

	Three months ended September 30,		Change	Percentage change
	2014	2013		
	(dollars in millions)			
Depreciation expense	\$ 5.6	\$ 4.5	\$ 1.1	25.4%
Intangible amortization expense	1.4	1.5	(0.1)	-6.0%
Depreciation and amortization expense	\$ 7.0	\$ 6.0	\$ 1.0	17.3%
As a percentage of revenues	5.7%	4.9%		

The increase in depreciation and amortization expense during the three months ended September 30, 2014 compared to the three months ended September 30, 2013 was primarily due to increased depreciation of \$1.0 million related to our new capital investments to support business growth.

Income from Operations. Income from operations decreased 72.3% from \$19.5 million for the three months ended September 30, 2013 to \$5.4 million for the three months ended September 30, 2014. As a percentage of revenues, income from operations decreased from 16.0% for the three months ended September 30, 2013 to 4.4% for the three months ended September 30, 2014. The decrease in income from operations as a percentage of revenues was primarily due to lower gross margins and higher depreciation and amortization expenses during the three months ended September 30, 2014 compared to the three months ended September 30, 2013.

Other Income/(Expense).

	Three months ended September 30,		Change	Percentage change
	2014	2013		
	(dollars in millions)			
Foreign exchange income/(loss)	\$ 0.6	\$ (2.5)	\$ 3.1	125.6%
Net interest and other income	1.1	0.4	0.7	124.7%
Other income/(expense)	\$ 1.7	\$ (2.1)	\$ 3.8	182.6%

Net foreign exchange income/(loss) was attributable to movement of the U.S. dollar against the Indian rupee, the Philippine peso and the U.K. pound sterling. The average exchange rate of the Indian rupee against the U.S. dollar decreased from 62.90 during the three months ended September 30, 2013 to 60.94 during the three months ended September 30, 2014. Increase in net interest and other income of \$0.7 million, was primarily due to higher yield on investments during the three months ended September 30, 2014 compared to the three months ended September 30, 2013.

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Provision for Income Taxes. Provision for income taxes decreased from \$4.2 million during the three months ended September 30, 2013 to \$1.0 million during the three months ended September 30, 2014. The effective tax rate decreased from 24.2% during the three months ended September 30, 2013 to 14.2% during the three months ended September 30, 2014 primarily due to lower income in the United States (refer to Note 12 to the unaudited consolidated financial statements for further details).

Net Income. Net income decreased from \$13.2 million for the three months ended September 30, 2013 to \$6.1 million for the three months ended September 30, 2014, primarily due to a decrease in operating income of \$14.1 million, partially offset by lower tax expense of \$3.2 million and an increase in other income of \$3.8 million. As a percentage of revenues, net income decreased from 10.8% for the three months ended September 30, 2013 to 5.0% for the three months ended September 30, 2014.

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

Revenues

	Nine months ended September 30,		Change	Percentage change
	2014	2013		
	(dollars in millions)			
Outsourcing services	\$ 285.6	\$ 294.6	\$ (9.0)	-3.1%
Transformation services	78.4	59.7	18.7	31.3%
Total revenues	<u>\$ 364.0</u>	<u>\$ 354.3</u>	<u>\$ 9.7</u>	<u>2.7%</u>

The decrease in revenues from outsourcing services of \$9.0 million was primarily driven by net volume increases from our existing and new clients aggregating to \$13.1 million, offset by a decrease of \$17.8 million due to the reimbursement of disentanglement costs to Travelers. Further, there was a decrease in revenues of \$4.4 million due to the net impact of the depreciation of the Indian rupee and the Philippine peso and the appreciation of U.K. pound sterling against the U.S. dollar during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

The increase in revenues from transformation services of \$18.7 million was driven by revenues of \$1.5 million from the Blue Slate acquisition and a combination of increased revenues in our recurring decision analytics services and project-based engagements in our decision analytics, operations consulting and finance transformation services. Revenues from new clients for transformation services were \$4.2 million and \$2.0 million during the nine months ended September 30, 2014 and 2013, respectively.

For the nine months ended September 30, 2014 and 2013, 3.8% and 3.9%, respectively, of our revenues represented telecommunication and travel-related costs billed to and reimbursed by our clients.

Cost of Revenues.

	Nine months ended September 30,		Change	Percentage change
	2014	2013		
	(dollars in millions)			
Total revenues	\$ 364.0	\$ 354.3	\$ 9.7	2.7%
Cost of revenues	241.2	218.9	22.3	10.2%
Gross profit	<u>\$ 122.8</u>	<u>\$ 135.4</u>	<u>\$(12.6)</u>	<u>-9.3%</u>
As a percentage of revenues	33.7%	38.2%		

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The increase in cost of revenues was primarily due to an increase in employee-related costs of \$24.1 million (including \$1.0 million of employee-related costs related to the Blue Slate acquisition) as a result of an annual wage increase effective April 1, 2014 and an increase in the number of our personnel directly involved in providing services to our clients. We also experienced an increase in facilities, technology and other operating expenses of \$6.7 million (primarily due to the establishment of new operations centers to support business growth and the Blue Slate acquisition). These increases were partially offset by a decrease of \$8.5 million due to the depreciation of the Indian rupee and the Philippine peso against the U.S. dollar during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Gross Profit. The decrease in gross profit as a percentage of revenues was primarily due to higher employee costs and the impact of reimbursement of disentanglement costs to Travelers. This decrease was partially offset by the depreciation of the Indian rupee and the Philippine peso against the U.S. dollar during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

SG&A Expenses.

	Nine months ended September 30,		Change	Percentage change
	2014	2013		
	(dollars in millions)			
General and administrative expenses	\$ 47.0	\$ 44.3	\$ 2.7	6.2%
Selling and marketing expenses	28.8	27.9	0.9	3.3%
Selling, general and administrative expenses	\$ 75.8	\$ 72.2	\$ 3.6	5.1%
As a percentage of revenues	20.8%	20.4%		

The increase in SG&A expenses was primarily due to an increase in employee-related costs of \$3.1 million due to our annual wage increase effective April 1, 2014, including \$0.5 million due to the Blue Slate acquisition. We also experienced an increase in other SG&A expenses of \$1.7 million, primarily due to an increase in our facility, legal and professional fees, travel and other marketing related costs, partially offset by a decrease of \$1.2 million due to the depreciation of the Indian rupee and the Philippine peso against the U.S. dollar during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Depreciation and Amortization.

	Nine months ended September 30,		Change	Percentage change
	2014	2013		
	(dollars in millions)			
Depreciation expense	\$ 15.5	\$ 14.0	\$ 1.5	10.6%
Intangible amortization expense	4.5	4.8	(0.3)	-6.2%
Depreciation and amortization expense	\$ 20.0	\$ 18.8	\$ 1.2	6.3%
As a percentage of revenues	5.5%	5.3%		

Depreciation and amortization expense increased 6.3% from \$18.8 million for the nine months ended September 30, 2013 to \$20.0 million for the nine months ended September 30, 2014. The increase was primarily due to increase in depreciation of \$2.2 million related to our new capital investments to support business growth, partially offset by a \$0.3 million decrease in amortization and a decrease of \$0.7 million due to depreciation of the Indian rupee and the Philippines peso against the U.S. dollar during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Income from Operations. Income from operations decreased from \$44.4 million for the nine months ended September 30, 2013 to \$27.0 million for the nine months ended September 30, 2014. As a percentage of revenues, income from operations decreased from 12.5% for the nine months ended September 30, 2013 to 7.4% for the nine months ended September 30, 2014. The decrease in income from operations as a percentage of revenues was primarily due to lower gross margins and higher SG&A expenses as a percentage of revenues during the nine months ended September 30, 2014.

[Table of Contents](#)**Other Income/(Expense).**

	Nine months ended September 30,		Change	Percentage change
	2014	2013		
	(dollars in millions)			
Foreign exchange income/(loss)	\$ (0.3)	\$ (3.1)	\$ 2.8	89.5%
Net interest and other income	2.8	1.7	1.1	62.5%
Other income/(expense)	<u>\$ 2.5</u>	<u>\$ (1.4)</u>	<u>\$ 3.9</u>	<u>285.5%</u>

Net foreign exchange gains/(losses) are attributable to movement of the U.S. dollar against the Indian rupee, the Philippine peso and the U.K. pound sterling. The average exchange rate of the Indian rupee against the U.S. dollar increased from 57.80 during the nine months ended September 30, 2013 to 60.76 during the nine months ended September 30, 2014. Increase in net interest and other income of \$1.1 million, was primarily due to higher yield on investments during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Provision for Income Taxes. Provision for income taxes decreased from \$10.8 million for the nine months ended September 30, 2013 to \$4.5 million for the nine months ended September 30, 2014. The effective tax rate decreased from 25.2% during the nine months ended September 30, 2013 to 15.3% during the nine months ended September 30, 2014, primarily due to a reversal of an unrecognized tax benefit of \$2.2 million and lower income in the United States (refer to Note 12 to the unaudited consolidated financial statements for further details).

Net Income. Net income decreased from \$32.2 million for the nine months ended September 30, 2013 to \$25.0 million for the nine months ended September 30, 2014, primarily due to lower income from operations of \$17.4 million, partially offset by lower income tax expense of \$6.3 million and higher other income of \$3.9 million. As a percentage of revenues, net income decreased from 9.1% for the nine months ended September 30, 2013 to 6.9% for the nine months ended September 30, 2014.

Liquidity and Capital Resources

	Nine months ended September 30,	
	2014	2013
	(dollars in millions)	
Opening cash and cash equivalents	\$ 148.1	\$ 103.0
Net cash provided by operating activities	44.3	44.2
Net cash used for investing activities	(30.6)	(13.6)
Net cash provided by financing activities	0.8	3.0
Effect of exchange rate changes	(1.2)	(4.2)
Closing cash and cash equivalents	<u>\$ 161.4</u>	<u>\$ 132.4</u>

As of September 30, 2014, we had \$168.0 million in cash and cash equivalents and short-term investments (including \$82.8 million held by our foreign subsidiaries). We do not intend to repatriate our overseas funds since our future growth partially depends upon continued infrastructure and technology investments, geographical expansions and acquisitions outside of the U.S. Therefore, we need to continuously and permanently reinvest the earnings generated outside of the U.S. If we were to repatriate our overseas funds, we would accrue and pay applicable taxes.

Operating Activities: Cash flows provided by operating activities marginally increased from \$44.2 million for the nine months ended September 30, 2013 to \$44.3 million for the nine months ended September 30, 2014. Generally, factors that affect our earnings—including pricing, volume of services, costs and productivity—affect our cash flows provided by 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 the working capital and cash flows provided by operating activities can be significant.

The increase in cash flows provided by operations was primarily due to a net decrease in working capital of \$0.2 million, offset by a decrease in net income adjusted for non-cash expenses of \$0.1 million during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Investing Activities: Cash flows used for investing activities increased from \$13.6 million for the nine months ended September 30, 2013 to \$30.6 million for the nine months ended September 30, 2014. The increase was primarily due to an increase in capital expenditure of \$12.0 million related to networking equipment, computers, software and our new operations centers in India and the Philippines during the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 and the acquisition of Blue Slate for \$6.2 million.

Financing Activities: Cash flows provided by financing activities decreased from \$3.0 million for the nine months ended September 30, 2013 to \$0.8 million for the nine months ended September 30, 2014. The decrease was primarily due to the purchase of treasury stock of \$2.9 million under the shares repurchase program.

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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 our facilities and the purchase of telecommunications equipment and computer hardware and software in connection with managing client operations. We incurred \$23.8 million of capital expenditures in the nine months ended September 30, 2014. We expect to incur capital expenditures of between \$3.0 million to \$6.0 million in the remainder of 2014, primarily to meet the growth requirements of our clients, including additions to our facilities as well as investments in technology applications and infrastructure. The timing and volume of such capital expenditures in the future will be affected by new client contracts we may enter into or the expansion of business under our existing client contracts.

In connection with any tax assessment orders that have been issued or may be issued against us or our subsidiaries, we may be required to deposit additional amounts with respect to such assessment orders (refer to Note 15 to our unaudited consolidated financial statements for further details).

We anticipate that we will continue to rely upon cash from operating activities to finance our smaller acquisitions, capital expenditures and working capital needs. If we have significant growth through acquisitions, we may need to obtain additional financing.

Financing Arrangements (Debt Facility)

We and certain of our subsidiaries entered into a credit agreement with the lenders identified therein and JPMorgan Chase Bank, N.A., as administrative agent, that became effective as of October 27, 2014 (the "Credit Agreement"). The Credit Agreement provides for a \$50 million revolving credit facility. We have an option to increase the commitments under the Credit Agreement, subject to certain approvals and conditions as set forth in the Credit Agreement.

Borrowings under the Credit Agreement may be used for working capital and general corporate purposes of the Company and its subsidiaries.

Depending on the type of borrowing, loans under the Credit Agreement bear interest at a rate equal to the specified prime rate (alternate base rate) or adjusted LIBO rate, plus, in each case, an applicable margin. The applicable margin is tied to our leverage ratio and ranges from 0.25% to 0.75% per annum with respect to loans ("ABR Loans") pegged to the specified prime rate, and 1.25% to 1.75% per annum on loans ("Eurodollar Loans") pegged to the adjusted LIBO rate (such applicable margin, the "Applicable Rate"). The revolving credit commitments under the Credit Agreement are subject to a commitment fee. The commitment fee is also tied to our leverage ratio, and ranges from 0.20% to 0.30% per annum on the average daily amount by which the aggregate revolving commitments exceed the sum of outstanding revolving loans and letter of credit obligations.

Off-Balance Sheet Arrangements

As of September 30, 2014 and December 31, 2013, we had no off-balance sheet arrangements or obligations.

Contractual Obligations

The following table sets forth our contractual obligations as of September 30, 2014:

	Payment Due by Period				Total
	Less than 1 year	1-3 years	4-5 years	After 5 years	
Capital leases	1.2	0.9	—	—	2.1
Operating leases	9.8	9.4	3.0	0.2	22.4
Purchase obligations	6.8	—	—	—	6.8
Other obligations ^(a)	2.5	2.5	2.5	3.0	10.5
Total contractual cash obligations ^(b)	<u>\$ 20.3</u>	<u>\$ 12.8</u>	<u>\$ 5.5</u>	<u>\$ 3.2</u>	<u>\$ 41.8</u>

(a) Represents estimated payments under the Company's gratuity plan.

(b) Excludes \$2.8 million related to uncertain tax positions, since the extent of the amount and timing of payment is currently not reliably estimable or determinable.

Certain units of our Indian subsidiaries were established as 100% Export-Oriented units under the "STPI" scheme promulgated by the Government of India. These units are exempt from customs, central excise duties, and levies on imported and indigenous capital goods, stores, and spares. We have undertaken to pay custom duties, service taxes, levies, and liquidated damages payable, if any, in respect of imported and indigenous capital goods, stores, and spares consumed duty free, in the event that certain terms and conditions are not fulfilled. We believe, however, that these units have in the past satisfied and will continue to satisfy the required conditions.

Our operations centers in the Philippines are registered with the "PEZA." The registration provides us with certain fiscal incentives on the import of capital goods and requires that Exl Philippines meet certain performance and investment criteria. We believe that these centers have in the past satisfied and will continue to satisfy the required criteria.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, see Note 2 – "Recent Accounting Pronouncements" under Item 1 – "Financial Statements" to our unaudited consolidated financial statements included in this Quarterly report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During the nine months ended September 30, 2014, there were no material changes in our market risk exposure. For a discussion of our market risk associated with exchange rate risk and interest rate risk, see Item 7A “Quantitative and Qualitative Disclosures about Market Risk” in our Annual Report on Form 10-K for the year ended December 31, 2013.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file under the Securities Exchange Act of 1934, as amended (the “Exchange Act,”) is recorded, processed, summarized and reported within the time periods specified in the U.S. Security and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), to allow timely decisions regarding required financial disclosure. In connection with the preparation of this Quarterly Report on Form 10-Q, our 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 September 30, 2014. Based upon that evaluation, the CEO and CFO have concluded that, as of September 30, 2014, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

During the nine months ended September 30, 2014, there was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

On July 1, 2014, the Company completed the Blue Slate acquisition. The scope of our assessment of the effectiveness of internal control over financial reporting does not include this newly acquired business as permitted by SEC rules for recently acquired businesses. The Company is in the process of reviewing the internal control structure of Blue Slate, and, if necessary, will make appropriate changes as the Company incorporates its controls and procedures into the acquired business.

PART II. OTHER INFORMATION

ITEM 1. 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 currently instituted or asserted will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. Please see Note 15 to our unaudited consolidated financial statements contained herein for details regarding our tax proceedings.

ITEM 1A. RISK FACTORS

We have disclosed under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013 a number of risks which may materially affect our business, financial condition or results of operations. You should carefully consider the “Risk Factors” set forth in our Annual Report on Form 10-K for the year ended December 31, 2013 and the other information set forth elsewhere in this Quarterly Report on Form 10-Q. You should be aware that these risk factors and other information may not describe every risk facing our Company. Additional risks and uncertainties not currently known to us may also materially adversely affect our business, financial condition and/or results of operations.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

None.

Purchases of Equity Securities by the Issuer

During the three months ended September 30, 2014, the Company acquired 109,500 shares of common stock from the open market under the common stock repurchase program announced on November 1, 2013 (refer Part II – Item 5 of our Annual Report on Form 10-K for the year ended December 31, 2013). The Company paid an aggregate consideration of \$2,862,838 for this share repurchase at the weighted average purchase price of \$26.14 per share.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Credit Agreement

We and certain of our subsidiaries entered into a credit agreement with the lenders identified therein and JPMorgan Chase Bank, N.A., as administrative agent, that became effective as of October 27, 2014 (the “Credit Agreement”). The Credit Agreement provides for a \$50 million revolving credit facility. We have an option to increase the commitments under the Credit Agreement, subject to certain approvals and conditions as set forth in the Credit Agreement. The Credit Agreement also includes a letter of credit subfacility.

Borrowings under the Credit Agreement may be used for working capital and general corporate purposes of the Company and its subsidiaries.

Depending on the type of borrowing, loans under the Credit Agreement bear interest at a rate equal to the specified prime rate (alternate base rate) or adjusted LIBO rate, plus, in each case, an applicable margin. The applicable margin is tied to our leverage ratio and ranges from 0.25% to 0.75% per annum with respect to loans (“ABR Loans”) pegged to the specified prime rate, and 1.25% to 1.75% per annum on loans (“Eurodollar Loans”) pegged to the adjusted LIBO rate (such applicable margin, the “Applicable Rate”). The revolving credit commitments under the Credit Agreement are subject to a commitment fee. The commitment fee is also tied to our leverage ratio, and ranges from 0.20% to 0.30% per annum on the average daily amount by which the aggregate revolving commitments exceed the sum of outstanding revolving loans and letter of credit obligations.

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The Credit Agreement will be guaranteed by our domestic subsidiaries. The obligations under the Credit Agreement will be secured by all or substantially all of the assets of the borrower and its material domestic subsidiaries.

The Credit Agreement contains customary affirmative and negative covenants (which are in some cases subject to certain exceptions), including, but not limited to, restrictions on the ability to incur additional indebtedness, create liens, make certain investments, make certain dividends and related distributions, enter into, or undertake, certain liquidations, mergers, consolidations or acquisitions and dispose of assets or subsidiaries. In addition, the Credit Agreement requires us to maintain a certain interest coverage ratio and a leverage ratio.

The Credit Agreement contains customary events of default (which are in some cases subject to certain exceptions, thresholds, notice requirements and grace periods), including, but not limited to, nonpayment of principal or interest, breaches of representations and warranties, failure to perform or observe covenants, cross-defaults with certain other agreements or indebtedness, final judgments or orders, certain change of control events and certain bankruptcy-related events or proceedings.

The foregoing description of the Credit Agreement is subject to, and qualified in its entirety by, the Credit Agreement, which we expect to file as an exhibit to our Annual Report on Form 10-K for the fiscal year ending December 31, 2014.

Acquisition of Overland

On October 24, 2014, pursuant to an Agreement and Plan of Merger, dated October 24, 2014, by and between ExlService.com, LLC, a Delaware limited liability company and a wholly owned subsidiary of the Company (the “Acquiror”), Heartland Acquisition Sub Corp., a Delaware corporation and a wholly owned subsidiary of the Acquiror (“Merger Sub”), Overland Holdings, Inc., a Delaware corporation (“Overland”), New Mountain Affiliated Investors, L.P., a New York limited partnership, and New Mountain Partners, L.P., a New York limited partnership (the “Plan of Merger”), we acquired Overland in a merger transaction. Overland specializes in premium audit services, commercial and residential underwriting surveys and outsourced loss control services for the property and casualty insurance industry.

Under the terms of the Plan of Merger and subject to the conditions set forth therein, Merger Sub merged with and into Overland and Overland survived and became a wholly owned subsidiary of the Acquiror (the “Merger”). The aggregate consideration for all the outstanding capital stock of Overland was \$53 million in cash (the “Merger Consideration”), subject to adjustment based on working capital, Overland’s debt and certain transaction expenses. The Merger Consideration was paid with existing cash on our balance sheet. A portion of the Merger Consideration otherwise payable in the Merger was placed into escrow as security for post-closing working capital adjustments and the indemnification obligations under the Merger Agreement.

The Merger Agreement contains customary representations, warranties and covenants of each of the Acquiror, Merger Sub and Overland. The assertions embodied in the representations, warranties and covenants in the Merger Agreement were made solely for purposes of the Merger Agreement and the transactions and agreements contemplated thereby among the representative parties are subject to important qualifications and limitations agreed to by the parties in connection with negotiating the terms of the Merger Agreement.

The foregoing summary of the Merger Agreement does not purport to be complete and is subject to, and qualified in its entirety by, the Merger Agreement filed hereto as Exhibit 2.1.

ITEM 6. EXHIBITS

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

2.1	Agreement and Plan of Merger, dated October 24, 2014, by and between ExlService.com, LLC, Heartland Acquisition Sub Corp., Overland Holdings, Inc., New Mountain Affiliated Investors, L.P. and New Mountain Partners, L.P.
31.1	Certification of the Chief Executive Officer of ExlService Holdings, pursuant to Rule 13a-14 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 of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the 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.
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.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: October 30, 2014

EXLSERVICE HOLDINGS, INC.

By: /s/ VISHAL CHHIBBAR

Vishal Chhibbar

Executive Vice President and Chief Financial Officer

(Duly Authorized Signatory, Principal Financial and Accounting Officer)

AGREEMENT AND PLAN OF MERGER

among

EXLSERVICE.COM, LLC,

HEARTLAND ACQUISITION SUB CORP.,

OVERLAND HOLDINGS, INC.,

solely for purposes of Section 5.11 hereof,

NEW MOUNTAIN AFFILIATED INVESTORS, L.P.

and

solely in its capacity as the Stockholder Representative and for purposes of Section 5.11 hereof,

NEW MOUNTAIN PARTNERS, L.P.

Dated as of October 24, 2014

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AGREEMENT AND PLAN OF MERGER

This AGREEMENT AND PLAN OF MERGER, dated as of October 24, 2014 (this "Agreement"), is among EXLService.com, LLC, a Delaware limited liability company (the "Acquiror"), Heartland Acquisition Sub Corp., a Delaware corporation and a wholly owned subsidiary of the Acquiror ("Merger Sub"), Overland Holdings, Inc., a Delaware corporation (the "Company"), solely for purposes of Section 5.11 hereof, New Mountain Affiliated Investors, L.P., a New York limited partnership, and, solely in its capacity as the Stockholder Representative and for purposes of Section 5.11 hereof, New Mountain Partners, L.P., a New York limited partnership.

RECITALS

A. The Boards of Directors of each of the Acquiror, the Company and Merger Sub have (i) determined that the merger of Merger Sub with and into the Company (the "Merger") is advisable and fair to, and in the best interests of, their respective stockholders and (ii) approved the Merger upon the terms and subject to the conditions set forth in this Agreement pursuant to the Delaware General Corporation Law (the "DGCL").

B. The Board of Directors of the Company has resolved to submit this Agreement to a vote of the stockholders of the Company and, subject to the terms hereof, to recommend approval of this Agreement to the stockholders of the Company.

C. The Acquiror, Merger Sub and the Company desire to make certain representations, warranties, covenants and agreements in connection with the Merger and also to prescribe various conditions to the Merger.

AGREEMENT

In consideration of the foregoing and the mutual covenants and agreements herein contained, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I DEFINITIONS

Section 1.1 Certain Defined Terms. For purposes of this Agreement:

"Acquiror Material Adverse Effect" means any event, change, occurrence or effect that would prevent, materially delay or materially impede the performance by the Acquiror or Merger Sub of their obligations under this Agreement or the consummation of the Merger or any of the other transactions contemplated hereby.

"Action" means any complaint, action, suit, arbitration or proceeding by or before any Governmental Authority.

“Affiliate” means, with respect to any Person, any other Person that directly, or indirectly through one or more intermediaries, Controls, is controlled by, or is under common control with, such first Person.

“Ancillary Agreements” means, collectively, the Escrow Agreement, the Payoff Letter, the Termination Agreements and any other certificate required to be executed and delivered under this Agreement.

“Business” means the business and operations of the Company and its Subsidiaries as conducted by them in the ordinary course consistent with past practice.

“Business Day” means any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by Law to be closed in The City of New York.

“Cash” means the sum of (i) all cash and cash equivalents of the Company and its Subsidiaries, plus (ii) any brokered certificates of deposit (both short-term and long-term), in each case, measured as of 12:01 a.m., New York time, on the Closing Date and determined in accordance with GAAP; provided, however, that in each case (x) Cash shall not include checks issued by the Company or any of its Subsidiaries, but not yet cashed by the payee and (y) Cash shall include checks and drafts received and not yet cashed by or deposited and not yet cleared for the account of the Company or any of its Subsidiaries.

“Closing Merger Consideration” means an amount not less than \$0.00 equal to (i) the Purchase Price, plus (ii) the Estimated Cash, plus (iii) the Working Capital Overage, if any, minus (iv) the Estimated Indebtedness, minus (v) the Working Capital Underage, if any, minus (vi) the Estimated Transaction Expenses, minus (vii) the Escrow Amount and Working Capital Escrow Amount, minus (viii) the Stockholder Representative Expense Holdback Amount.

“Code” means the Internal Revenue Code of 1986, as amended.

“Company Common Stock” means the common stock, par value \$.01 per share, of the Company.

“Contract” means any binding oral or written agreement, contract, plan, lease, sublease, license, sublicense, franchise, power of attorney, undertaking, indenture, promissory note, evidence of indebtedness, letter of credit, guaranty, bond, loan, mortgage, instrument or any other contract, commitment or arrangement.

“Control,” including the terms “controlled by” and “under common control with,” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, as trustee or executor, as general partner or managing member, by Contract or otherwise.

“Encumbrance” means any charge, claim, mortgage, lien, option, pledge, easement, security interest or other similar security arrangement (other than those created under applicable securities laws).

“ERISA Affiliate” means any corporation or trade or business (whether or not incorporated) which is treated with the Company as a single employer within the meaning of Section 414 of the Code.

“Escrow Agent” means JPMorgan Chase Bank, N.A.

“Escrow Agreement” means that certain Escrow Agreement to be entered into by the Acquiror, the Stockholder Representative and the Escrow Agent, substantially in the form of Exhibit A hereto.

“Escrow Amount” means an amount equal to 7.5% of the Purchase Price.

“Escrow Fund” means the Escrow Amount deposited with the Escrow Agent, as such sum may be increased or decreased as provided in this Agreement and the Escrow Agreement, including any interest or other amounts earned thereon.

“Excluded Tax” means (i) any Tax included in the calculation of Closing Net Working Capital, (ii) any Taxes of the Company or any of its Subsidiaries resulting from transactions not in the ordinary course of business of the Company and its Subsidiaries occurring on the Closing Date after the Effective Time and not required to be performed pursuant to the terms of this Agreement, and (iii) any Taxes of the Company or any of its Subsidiaries based upon or resulting from any (A) voluntary action or (B) failure to take any action required to be taken by Law or this Agreement by the Acquiror or any of its Affiliates after Closing, in each case which action or failure to take action affects the Taxes of the Company or any of its Subsidiaries for any Tax period (or portion thereof) ending on or before the Closing Date, including the 338 Election.

“GAAP” means United States generally accepted accounting principles consistently applied.

“Governmental Authority” means any United States or non-United States national, federal, state or local governmental, regulatory or administrative authority, court, agency or commission or any judicial or arbitral body, or any quasi-governmental body exercising any Tax, regulatory or governmental or quasi-governmental authority.

“Income Taxes” means any U.S. federal, state or local or foreign net income or franchise (in lieu of net income) Taxes or other Taxes imposed on net income.

“Indebtedness” means, as of immediately prior to the Effective Time and determined in accordance with GAAP and the Sample Statement, without duplication the amount of all (i) obligations for borrowed money of the Company and its Subsidiaries (including any unpaid principal, premium, accrued and unpaid interest, prepayment penalties, commitment and other fees, reimbursements, indemnities and all other amounts payable in connection therewith), (ii) liabilities of the Company and its Subsidiaries evidenced by bonds, debentures, notes, or other similar instruments or debt securities, (iii) obligations, contingent or otherwise, of the Company and its Subsidiaries in respect of any letters of credit or bankers’ acceptances (to the extent drawn), sureties, performance bonds, guaranties, endorsements and other similar obligations, whether secured or not, in respect of the obligations of other Persons,

(iv) obligations (including accrued interest) without duplication under a lease agreement that would be capitalized pursuant to GAAP but excluding any breakage costs, prepayment penalties or fees or other similar amounts payable in connection with any capitalized leases unless such breakage costs, prepayment penalties, fees or other similar amounts are due and will be paid at the Closing, and (v) deferred purchase price of property or services, including any earn-outs (other than, in each case, current liabilities incurred in the Ordinary Course of Business to the extent included in the calculation of Net Working Capital). For purposes of calculating Indebtedness, (a) other than in the case of clause (iv) hereof, all interest, prepayment penalties, premiums, fees and expenses (if any) and other amounts which would be payable if Indebtedness were paid in full at the Closing shall be treated as Indebtedness and (b) all PIK instruments (including all interest, prepayment penalties, premiums, fees and expenses relating thereto) shall constitute "Indebtedness". Notwithstanding the foregoing, no amounts due in respect of the Notes (including any principal, interest or otherwise) shall constitute "Indebtedness" hereunder.

"Information Privacy and Security Laws" means all Laws applicable to the Company or any of its Subsidiaries concerning the privacy and/or security of Personally Identifiable Information, and all regulations promulgated thereunder.

"Intellectual Property" means all United States and non-United States: (i) trade names, trademarks and service marks, domain names, trade dress and all registrations and applications to register any of the foregoing and all goodwill associated therewith (collectively, "Marks"); (ii) patents and patent applications (collectively, "Patents"); (iii) works of authorship, copyrights therein and all registrations and applications to register any of the foregoing (collectively, "Copyrights"); and (iv) know-how, inventions, discoveries, methods, processes, technical data, specifications, research and development information, technology, data bases and other proprietary or confidential information, including customer lists, in each case that derives economic value from not being generally known to other Persons who can obtain economic value from its disclosure, but excluding any Copyrights or Patents that cover or protect any of the foregoing (collectively, "Trade Secrets").

"IRS" means the Internal Revenue Service of the United States.

"Knowledge" with respect to the Company means the actual (but not constructive or imputed) knowledge after reasonable inquiry of the Persons listed in Schedule 1.1(a) of the Disclosure Schedules.

"Law" means any statute, law, ordinance, regulation, rule, code, injunction, writ, directive, ruling, judgment, decree or order of any Governmental Authority.

"Leased Real Property" means the real property leased by the Company or any of its Subsidiaries, in each case, as tenant, together with, to the extent leased by the Company or its Subsidiaries, all buildings and other structures, facilities or improvements currently or as of the Closing Date located thereon and all easements, licenses, rights and appurtenances of the Company or any of its Subsidiaries relating to the foregoing.

“Material Adverse Effect” means any event, change, occurrence or effect that (i) would have or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on the business, financial condition, or results of operations of the Company and its Subsidiaries, taken as a whole or (ii) would prevent, materially delay or materially impede the performance by the Company of its obligations under this Agreement or the consummation of the Merger or any of the other transactions contemplated hereby, other than any event, change, occurrence or effect to the extent arising out of or resulting from (A) changes in general economic, financial market, business or geopolitical conditions, (B) general changes or developments in any of the industries in which the Company or its Subsidiaries operate (except to the extent such change had an effect on the Company which is or is reasonably expected to be disproportionate to that on the other participants in the industries in which the Company or its Subsidiaries operate), (C) natural disasters or calamities, (D) changes in any applicable Laws or applicable accounting regulations or principles or interpretations thereof, (E) any outbreak or escalation of hostilities or any acts of war or terrorism or (F) the negotiation, announcement, pendency or consummation of this Agreement and the transactions contemplated hereby.

“Merger Consideration” means an amount not less than \$0.00 equal to the Closing Merger Consideration, subject to adjustment in accordance with Section 2.11, together with any amounts that may become payable to the Securityholders from the then remaining Escrow Fund and Working Capital Escrow Fund, when and if released, and the Stockholder Representative Expense Holdback Amount as provided in this Agreement.

“Net Working Capital” means an amount (which may be positive or negative) equal to the sum of (i) the current assets (excluding Cash and Income Tax assets) of the Company and its Subsidiaries, taken as a whole, minus (ii) the current liabilities (excluding Indebtedness, Transaction Expenses and Income Tax liabilities) of the Company and its Subsidiaries, taken as a whole, each calculated as of 12:01 a.m., New York time, on the Closing Date in accordance with GAAP, the accounting methodologies and assumptions used in the preparation of the Financial Statements applied historically on a consistent basis across periods and the Sample Statement. Notwithstanding anything in this Agreement or GAAP, Net Working Capital shall not include any current liability (or item that would reduce Net Working Capital) for severance or related costs and expenses (including employer portion of payroll taxes) related to the Company’s Chief Executive Officer.

“Option” means each outstanding option to purchase Shares.

“Ordinary Course of Business” means the ordinary and usual course of day-to-day operations of the Business consistent with past practice.

“Permitted Encumbrance” means (i) statutory liens for current Taxes not yet due or delinquent (or which may be paid without interest or penalties) or the validity or amount of which is being contested in good faith by appropriate proceedings and for which appropriate reserves have been established by the Company or any of its Subsidiaries in accordance with GAAP, (ii) mechanics’, carriers’, workers’, repairers’ and other similar liens arising or incurred in the Ordinary Course of Business relating to obligations as to which there is no default on the part of the Company or any of its Subsidiaries for a period greater than 60 days, or the validity or

amount of which is being contested in good faith by appropriate proceedings and for which appropriate reserves have been established by the Company or any of its Subsidiaries in accordance with GAAP, or pledges, deposits or other liens securing the performance of bids, trade contracts, leases or statutory obligations (including workers' compensation, unemployment insurance or other social security legislation), (iii) zoning, entitlement, conservation restriction and other land use and environmental regulations promulgated by Governmental Authorities and (iv) all Encumbrances listed on Schedule 1.1(b).

"Person" means an individual, corporation, partnership, limited liability company, limited liability partnership, syndicate, person, trust, association, organization or other entity, including any Governmental Authority, and including any successor, by merger or otherwise, of any of the foregoing.

"Personally Identifiable Information" means information that identifies a person or can be used to identify, contact, or precisely locate a person, such as name, address, telephone numbers, financial account number and/or account information, email address, or government-issued identifier, including without limitation, driver's license number, social security number or employer tax identification number.

"Purchase Price" means \$53,000,000.

"Representatives" means, with respect to any Person, the officers, directors, principals, employees, agents, counsel, auditors, advisors, bankers and other representatives of such Person.

"Return" means any return, declaration, report, statement, information statement and other document required to be filed with respect to Taxes.

"Securityholders" means (i) each Stockholder and (ii) each other Person that holds (x) the Amended and Restated Subordinated Promissory Note, dated June 30, 2014, between Overland Solutions, Inc. and New Mountain Partners, L.P. and (y) the Amended and Restated Promissory Note, dated June 30, 2014, between Overland Solutions, Inc. and New Mountain Affiliated Investors, L.P. (collectively, the "Notes"), in each case to the extent such Person is entitled to receive any portion of the Merger Consideration.

"Shares" means the shares of Company Common Stock, including all shares of restricted stock, whether or not vested.

"Software" means applications, operating systems, scripts and other computer programs.

"Stockholder Representative Expense Holdback Amount" means \$75,000.

"Subsidiary" means, with respect to any Person, any other Person of which at least 50% of the outstanding voting securities or other voting equity interests are owned, directly or indirectly, by such first Person.

"Target Net Working Capital" means \$4,200,000.

“Taxes” means (i) all federal, state, local or foreign taxes, charges, fees, imposts, levies or other assessments, including all income, gross receipts, capital, sales, use, ad valorem, value added, transfer, franchise, profits, inventory, capital stock, license, withholding, payroll, employment, social security, unemployment, excise, severance, stamp, occupation, property (including unclaimed property) and estimated taxes, customs duties, fees, assessments and charges of any kind whatsoever, and (ii) any interest, penalties, fines, additions to tax or additional amounts imposed by any Governmental Authority in connection with any item described in clause (i).

“Third Party Software” means Software owned by a third party and licensed to either the Company or one of its Subsidiaries that is used in the Business.

“Transaction Expenses” means, to the extent not paid by the Company, the Stockholders or otherwise prior to the Effective Time, (i) the fees, costs and expenses (including legal, accounting and financial advisory expenses) incurred by the Company or any of its Subsidiaries on or prior to the Closing Date in connection with the transactions contemplated by this Agreement, (ii) the amount of any change of control or transaction bonuses payable to any employees of the Company or its Subsidiaries solely as a result of the transactions contemplated by this Agreement (including any Taxes related thereto), (iii) any brokerage fees payable by the Company or its Subsidiaries in connection with the transactions contemplated by this Agreement, (iv) 50% of the fees and expenses of the Escrow Agent, (v) 100% of the costs of D&O policy coverage as provided in Section 5.6, (vi) 50% of any Transfer Taxes payable as a result of the consummation of the Merger and the other transactions contemplated by this Agreement, (vii) 50% of all filing fees and other charges for any filing under the HSR Act and (viii) any fees payable under that certain Advisory Agreement, dated as of February 27, 2003, among CPCS Holding Co., CPCS Acquisition Co. and New Mountain Capital, LLC, as may be amended from time to time. Notwithstanding anything in this Agreement or GAAP, Transaction Expenses shall not include any severance amount or related payments (such as employer portion of payroll taxes) or expenses (whether accrued or not) related to the Company’s Chief Executive Officer.

“Working Capital Escrow Amount” means \$500,000.

“Working Capital Escrow Fund” means the Working Capital Escrow Amount deposited with the Escrow Agent, as such sum may be increased or decreased as provided in this Agreement and the Escrow Agreement, including any interest or other amounts earned thereon.

“Working Capital Overage” shall exist when (and shall be equal to the amount by which) the Estimated Net Working Capital exceeds the Target Net Working Capital.

“Working Capital Underage” shall exist when (and shall be equal to the amount by which) the Target Net Working Capital exceeds the Estimated Net Working Capital.

Section 1.2 Table of Definitions. The following terms have the meanings set forth in the Sections referenced below:

<u>Definition</u>	<u>Location</u>
338 Election	5.10(a)
Acquiror	Preamble
Acquiror Indemnified Parties	7.2
Acquisition Engagement	8.19(a)
Affected Employees	5.3(a)
Agreement	Preamble
Applicable Accounting Principles	2.11(a)
Balance Sheet	3.6(a)
Basket Amount	7.5(a)(ii)
Cancelled Shares	2.6(d)
Cap	7.5(a)(i)
Certificate of Merger	2.2(b)
Closing	2.2(a)
Closing Cash	2.11(b)
Closing Date	2.2(a)
Closing Indebtedness	2.11(b)
Closing Net Working Capital	2.11(b)
Closing Transaction Expenses	2.11(b)
Company	Preamble
Company Patents	3.14(a)
Company Registered Copyrights	3.14(a)
Company Registered IP	3.14(a)
Company Registered Marks	3.14(a)
Company Stockholder Approval	3.2(a)
Confidential Information	5.9(b)
Confidentiality Agreement	5.4
Copyrights	1.1
Covenant Date	5.3(a)
D&O Indemnified Liabilities	5.6(a)
D&O Indemnified Parties	5.6(a)
Data Breach	3.23
DGCL	Recitals
Direct Claim Notice	7.4(c)
Disclosure Schedules	Article III
Dissenting Shares	2.7
Effective Time	2.2(b)
Electing Employee	5.8(a)
Election Period	5.8(a)
Employee Plans	3.10(a)
Environmental Laws	3.16(c)(i)
Environmental Permits	3.16(c)(ii)
ERISA	3.10(a)
Estimated Cash	2.11(a)
Estimated Indebtedness	2.11(a)
Estimated Net Working Capital	2.11(a)
Estimated Transaction Expenses	2.11(a)

<u>Definition</u>	<u>Location</u>
Final Closing Statement	2.11(b)
Financial Statements	3.6(a)
Fundamental Representations	7.1(a)
Gibson Dunn	8.19(a)
Indemnified Party	7.4(a)
Indemnifying Party	7.4(a)
Independent Accounting Firm	2.11(d)
Interim Financial Statements	3.6(a)
Leases	3.13(b)
Losses	7.2
Majority Holders	2.13(c)
Marks	1.1
Material Contracts	3.17(a)
Merger	Recitals
Merger Sub	Preamble
Net Adjustment Amount	2.11(g)(i)
Notes	1.1
Notice of Claim	7.4(a)
Notice of Disagreement	2.11(c)
Patents	1.1
Payoff Letter	6.2(e)
Permits	3.8(b)
Potential Contributor	7.6
Preliminary Closing Statement	2.11(a)
Protected Information	3.23
RSUs	5.8(a)
Sample Statement	2.11(a)
Stockholder	2.9
Stockholder Indemnified Parties	7.3
Stockholder Representative	2.13(a)
Surviving Corporation	2.1
Termination Agreements	6.2(f)
Third Party Claim	7.4(a)
Trade Secrets	1.1
Transfer Taxes	5.7
WARN Act	3.11(f)

ARTICLE II THE MERGER

Section 2.1 The Merger. Upon the terms and subject to the conditions of this Agreement, at the Effective Time and in accordance with the DGCL, Merger Sub shall be merged with and into the Company pursuant to which (a) the separate corporate existence of Merger Sub shall cease, (b) the Company shall be the surviving corporation in the Merger (the "Surviving Corporation") and shall continue its corporate

existence under the laws of the State of Delaware as a wholly owned Subsidiary of the Acquiror and (c) all of the properties, rights, privileges, powers and franchises of the Company will vest in the Surviving Corporation, and all of the debts, liabilities, obligations and duties of the Company will become the debts, liabilities, obligations and duties of the Surviving Corporation.

Section 2.2 Closing; Effective Time.

(a) The closing of the Merger (the "Closing") shall take place at the offices of Gibson, Dunn & Crutcher LLP, 200 Park Avenue, New York, New York, at 10:00 a.m., New York time, on the date hereof, or at such other place or at such other time or on such other date as the parties mutually may agree in writing. The day on which the Closing takes place is referred to as the "Closing Date."

(b) As soon as practicable on the Closing Date, the parties shall cause a certificate of merger substantially in the form attached as Exhibit B to be executed and filed with the Secretary of State of the State of Delaware (the "Certificate of Merger"), executed in accordance with the relevant provisions of the DGCL. The Merger shall become effective upon the filing of the Certificate of Merger with the Secretary of State of the State of Delaware or at such other time as the parties shall agree and as shall be specified in the Certificate of Merger. The date and time when the Merger shall become effective is herein referred to as the "Effective Time."

Section 2.3 Effects of the Merger. The Merger shall have the effects provided for herein and in the applicable provisions of the DGCL.

Section 2.4 Certificate of Incorporation and Bylaws. From and after the Effective Time, subject to Section 5.6, (a) the certificate of incorporation of Merger Sub, as in effect immediately prior to the Effective Time, shall be the certificate of incorporation of the Surviving Corporation until amended in accordance with the provisions thereof and applicable Law and (b) the bylaws of Merger Sub, as in effect immediately prior to the Effective Time, shall be the bylaws of the Surviving Corporation until amended in accordance with the provisions thereof and applicable Law.

Section 2.5 Directors; Officers. From and after the Effective Time, (a) the directors of Merger Sub serving immediately prior to the Effective Time shall be the directors of the Surviving Corporation until the earlier of their resignation or removal or until their respective successors are duly elected and qualified, as the case may be, and (b) the officers of the Company serving immediately prior to the Effective Time shall be the officers of the Surviving Corporation until the earlier of their resignation or removal or until their respective successors are duly elected and qualified, as the case may be.

Section 2.6 Conversion of Stock. At the Effective Time, by virtue of the Merger and without any further action on the part of the Acquiror, Merger Sub, the Company or any holder of any Shares or Options or any shares of capital stock of Merger Sub:

(a) each Share issued and outstanding immediately prior to the Effective Time (other than Cancelled Shares and any Dissenting Shares) shall be converted into the right to receive a pro rata portion of the positive difference, if any, between the Merger Consideration (based on the number of Shares issued outstanding as of the Effective Time other than Cancelled Shares), and any amounts payable in respect of the Notes, in cash, without interest;

(b) effective immediately prior to the Effective Time, all outstanding unvested restricted Shares shall fully vest and shall be treated as specified in Section 2.6(a);

(c) each Share that is owned by the Acquiror or Merger Sub immediately prior to the Effective Time shall automatically be cancelled and retired and shall cease to exist, and no cash or other consideration shall be delivered or deliverable in exchange therefor;

(d) each Share that is held in the treasury of the Company or owned by the Company or any of its wholly owned Subsidiaries immediately prior to the Effective Time shall automatically be cancelled and retired and shall cease to exist, and no cash or other consideration shall be delivered or deliverable in exchange therefor (the Shares described in Section 2.6(c) and this Section 2.6(d), collectively, "Cancelled Shares"); and

(e) each share of common stock, par value \$0.01 per share, of Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into one validly issued, fully paid and nonassessable share of common stock, par value \$0.01 per share, of the Surviving Corporation.

Section 2.7 Dissenting Shares. Notwithstanding anything in this Agreement to the contrary, Shares (other than Cancelled Shares) outstanding immediately prior to the Effective Time and held by a holder who has not voted in favor of the Merger or consented thereto in writing and who has properly demanded appraisal for such Shares in accordance with Section 262 of the DGCL ("Dissenting Shares") shall not be converted into or be exchangeable for the right to receive a portion of the Merger Consideration, if any, to which such holder is entitled under Section 2.6 above, and shall only be entitled to such rights as are granted by the DGCL unless and until such holder fails to perfect or withdraws or otherwise loses his, her or its right to appraisal and payment under the DGCL. If, after the Effective Time, any such holder fails to perfect or withdraws or loses his, her or its right to appraisal, such Dissenting Shares shall thereupon be treated as if they had been converted as of the Effective Time into the right to receive the portion of the Merger Consideration, if any, to which such holder is entitled under Section 2.6 above, without interest. The Company, or after the Closing, the Stockholder Representative shall give the Acquiror (a) reasonably prompt notice of any demands received by such party for appraisal of Shares pursuant to the DGCL or any other notices objecting to the Merger and (b) the opportunity to participate in all negotiations and proceedings with respect to such demands. The Company or, after the Closing, the Stockholder Representative, shall not, except with the prior written consent of the Acquiror (which consent shall not be unreasonably withheld, delayed or conditioned), make any payment with respect to, or settle or offer to settle, such demands.

Section 2.8 Options. The Company shall take all actions necessary (including providing any required notices, exercise periods and/or obtaining any required consents) such that, effective at the Effective Time, each outstanding Option (whether vested or unvested) shall be cancelled without consideration and shall be of no further force and effect.

Section 2.9 Payment for Shares.

(a) Each holder of Shares (each, a “Stockholder”) acknowledges that the amounts due in respect of the Notes are in excess of the Purchase Price and as such, it is anticipated that the entire Merger Consideration shall be delivered to the Securityholders in respect of the Notes (whereupon at the Closing, the Notes shall be cancelled and deemed satisfied and fully discharged, it being agreed that each Securityholder shall continue to have the right to receive thereafter any amounts which may become payable to such Securityholder pursuant to Sections 2.11 and 7.3 and from the Working Capital Escrow Fund, the Escrow Fund and the Stockholder Representative Expense Holdback Amount) and no payments shall be made hereunder with respect to the Shares to any Stockholder except as set forth immediately below. In the event the Closing Merger Consideration or the Merger Consideration (as finally determined following the adjustments described in Section 2.11, and release of any amounts that may become payable to the Securityholders from the Working Capital Escrow Fund, the Escrow Fund and the Stockholder Representative Expense Holdback Amount) exceeds the amounts payable in respect of the Notes, the Stockholder Representative shall make arrangements, reasonably satisfactory to the Acquiror and the Company, to provide for payments to be made to each Stockholder in respect of the Shares as provided in Section 2.6(a), subject to prior receipt from such Stockholder of a customary letter of transmittal and the certificate, if any, evidencing such Shares.

(b) From and after the Effective Time, the holders of certificates representing Shares shall cease to have any rights with respect to Shares represented thereby, except for the right to receive payment (if any) under Section 2.6(a) for their Shares, in cash and without interest, together with any other amounts, if any, provided under Section 2.6 or by applicable Law.

Section 2.10 Closing Payments. At the Closing, the Acquiror will make (or cause to be made) the following payments, in each case by wire transfer of immediately available funds to the account or accounts designated by the payee in writing no later than two Business Days prior to the Closing Date:

(a) to the Escrow Agent for deposit in the respective accounts, the Working Capital Escrow Amount, the Escrow Amount and the Stockholder Representative Expense Holdback Amount;

(b) on behalf of the Company, subject to receipt of customary payoff letters, the amount payable to each counterparty or holder of Indebtedness for borrowed money to the extent and as set forth in the Preliminary Closing Statement in order to fully discharge such Indebtedness and terminate all applicable obligations and liabilities of the Company and any of its Affiliates related thereto;

(c) on behalf of the Company, an amount equal to the Estimated Transaction Expenses, to each Person who is owed a portion thereof as set forth in the Preliminary Closing Statement (provided that in the case of Transaction Expenses consisting of bonuses subject to withholding, such amounts shall be paid to the Company for further distribution to the recipients thereof through the Company’s payroll system and the parties shall cause the Company to make

such bonus payments through its payroll system on the Closing Date; provided, further, that the Company shall accrue the amount of all such bonus payments in its accounts as of immediately prior to the Effective Time); and

(d) the Closing Merger Consideration to Securityholders (i) in respect of amounts owed in respect of the Notes as set forth in the Payoff Letter, which shall be in a form reasonably satisfactory to Acquiror and (ii) to the extent any portion of the Closing Merger Consideration remains after payments are made in respect of the Notes, any amounts due pursuant to Section 2.6(a).

Section 2.11 Merger Consideration Adjustments.

(a) At least one Business Day prior to the Closing Date, the Company shall have prepared and delivered to the Acquiror a statement (the "Preliminary Closing Statement") setting forth (i) a good-faith estimate of the Company's (A) Net Working Capital (the "Estimated Net Working Capital"), (B) Indebtedness (the "Estimated Indebtedness"), (C) Cash (the "Estimated Cash") and (D) Transaction Expenses (the "Estimated Transaction Expenses"), each determined as of the Closing Date (and, except for Estimated Transaction Expenses, calculated without giving effect to the transactions contemplated herein), based on the Company's books and records and other information available at the Closing and (ii) on the basis of the foregoing, a calculation of the Closing Merger Consideration. Estimated Net Working Capital, Estimated Indebtedness, Estimated Cash and Estimated Transaction Expenses shall be calculated on a basis consistent with Schedule 2.11 of the Disclosure Schedules and the accounting principles, practices, assumptions, conventions and policies referred to therein (the "Applicable Accounting Principles"). An illustrative example of a Preliminary Closing Statement and calculation of Net Working Capital is set forth in Schedule 2.11 of the Disclosure Schedules (the "Sample Statement").

(b) Within 90 days after the Closing Date, the Acquiror shall cause to be prepared and delivered to the Stockholder Representative a written statement (the "Final Closing Statement") that shall include and set forth a calculation in reasonable detail of the actual (i) Net Working Capital ("Closing Net Working Capital"), (ii) Indebtedness ("Closing Indebtedness"), (iii) Cash ("Closing Cash") and (iv) Transaction Expenses ("Closing Transaction Expenses"), each determined as of the Closing Date (and, except for Closing Transaction Expenses, without giving effect to the transactions contemplated herein). The Final Closing Statement (i) shall be prepared on a basis consistent with the Applicable Accounting Principles and the Sample Statement and (ii) shall be based exclusively on the facts and circumstances as they exist or are discovered to exist as of the Closing and shall exclude the effects of any event, act, change in circumstances or similar development arising or occurring after the Closing. To the extent any actions following the Closing with respect to the accounting books and records of the Company on which the Final Closing Statement and the foregoing calculations are to be based are not consistent with the Company's past practices, such changes shall not be taken into account in preparing the Final Closing Statement or calculating amounts reflected thereon.

(c) The Final Closing Statement shall become final and binding on the 30th day following delivery thereof, except to the extent that prior to the end of such period the Stockholder Representative, on behalf of the Stockholders, delivers to the Acquiror written notice of its disagreement (a "Notice of Disagreement") specifying the nature and amount of any dispute in reasonable detail as to the Closing Net Working Capital, Closing Indebtedness, Closing Cash and/or Closing Transaction Expenses, as set forth in the Final Closing Statement. The Stockholder Representative shall be deemed to have agreed with all items and amounts of Closing Net Working Capital, Closing Indebtedness, Closing Cash and/or Closing Transaction Expenses not specifically referenced in the Notice of Disagreement, and such items and amounts shall not be subject to review in accordance with Section 2.11(d).

(d) During the 20 day period following delivery of a Notice of Disagreement by the Stockholder Representative to the Acquiror, the parties in good faith shall seek to resolve in writing any differences that they may have with respect to the calculation of the Closing Net Working Capital, Closing Indebtedness, Closing Cash and/or Closing Transaction Expenses as specified therein. Any disputed items resolved in writing between the Stockholder Representative and the Acquiror within such 20 day period shall be final and binding with respect to such items, and if the Stockholder Representative and the Acquiror agree in writing on the resolution of each disputed item specified by the Stockholder Representative in the Notice of Disagreement and the amount of the Closing Net Working Capital, Closing Indebtedness, Closing Cash and/or Closing Transaction Expenses, as applicable, the amounts so determined shall be final and binding on the parties for all purposes hereunder. If the Stockholder Representative and the Acquiror have not resolved all such differences disputed in the Notice of Disagreement by the end of such 20 day period, the Stockholder Representative and the Acquiror shall submit, in writing, to an independent public accounting firm (the "Independent Accounting Firm"), their briefs detailing their views as to the correct nature and amount of each item remaining in dispute and the amounts of the Closing Net Working Capital, Closing Indebtedness, Closing Cash and/or Closing Transaction Expenses, as applicable, and the Independent Accounting Firm shall make a written determination as to each such disputed item and the amount of the Closing Net Working Capital, Closing Indebtedness, Closing Cash and/or Closing Transaction Expenses, as applicable. The Independent Accounting Firm shall be McGladrey LLP or, if such firm is unable or unwilling to act, such other independent public accounting firm of national standing as shall be agreed in writing by the Stockholder Representative and the Acquiror. The Acquiror and the Stockholder Representative shall use their commercially reasonable efforts to cause the Independent Accounting Firm to render a written decision resolving the matters submitted to it within 30 days following the submission thereof. The Independent Accounting Firm shall consider only those items and amounts in the Acquiror's and the Stockholder Representative's respective calculations of the Closing Net Working Capital, Closing Indebtedness, Closing Cash and/or Closing Transaction Expenses that are identified as being items and amounts to which the Acquiror and the Stockholder Representative have been unable to agree. The scope of the disputes to be resolved by the Independent Accounting Firm shall be limited to correcting mathematical errors and determining whether the items and amounts in dispute were determined

in accordance with the Applicable Accounting Principles and the Sample Statement and the Independent Accounting Firm is not to make any other determination, including any determination as to whether the Target Net Working Capital or any estimates on the Preliminary Closing Statement are correct, adequate or sufficient. In resolving any disputed item, the Independent Accounting Firm may not assign a value to any item greater than the greatest value for such item claimed by either party or less than the smallest value for such item claimed by either party. The Independent Accounting Firm's determination of the Closing Net Working Capital, Closing Indebtedness, Closing Cash and/or Closing Transaction Expenses, as applicable, shall be based solely on written materials submitted by the Acquiror and the Stockholder Representative (i.e., not on independent review). Each of the Acquiror and the Stockholder Representative shall provide a copy of its submission to the Independent Accounting Firm to the other party. There shall be no hearings or oral examinations, communications, testimony, depositions, discovery or other similar proceedings. The determination of the Independent Accounting Firm shall be conclusive and binding upon the parties hereto and shall not be subject to appeal or further review. Judgment may be entered upon the written determination of the Independent Accounting Firm in accordance with Section 8.9. In acting under this Agreement, the Independent Accounting Firm will be entitled to the privileges and immunities of an arbitrator.

(e) The costs of any dispute resolution pursuant to this Section 2.11, including the fees and expenses of the Independent Accounting Firm and of any enforcement of the determination thereof, shall be borne by the Stockholder Representative, on behalf of the Securityholders, and the Acquiror in inverse proportion as they may prevail on the matters resolved by the Independent Accounting Firm, which proportionate allocation shall be calculated on an aggregate basis based on the relative dollar values of the amounts in dispute and shall be determined by the Independent Accounting Firm at the time the determination of such firm is rendered on the merits of the matters submitted. The fees and disbursements of the Representatives of each party incurred in connection with the preparation or review of the Final Closing Statement and preparation or review of any Notice of Disagreement, as applicable, shall be borne by such party.

(f) The Acquiror and the Company will, and the Acquiror will cause the Surviving Corporation, during the period from and after the date of delivery of the Final Closing Statement through the resolution of any adjustment to the Purchase Price contemplated by this Section 2.11, to afford the other party and its Representatives reasonable access, during normal business hours and upon reasonable prior notice, and at their sole cost, to the personnel, properties, books and records of the Company or the Surviving Corporation, as the case may be, and their Subsidiaries and to any other information reasonably requested for purposes of preparing and reviewing the calculations contemplated by this Section 2.11, in each case subject to the confidentiality obligations set forth in Section 5.9. Each of the Acquiror, the Company and the Surviving Corporation, as applicable, shall authorize its accountants to disclose work papers generated by such accountants in connection with preparing and reviewing the calculations specified in this Section 2.11; provided, that such accountants shall not be obligated to make any work papers available except in accordance with such accountants' disclosure procedures and then only after the non-client party has signed an agreement relating to access to such work papers in form and substance acceptable to such accountants.

(g) The Merger Consideration shall be adjusted, upwards or downwards, as follows:

(i) For the purposes of this Agreement, the “Net Adjustment Amount” means an amount, which may be positive or negative, equal to (A) the Closing Net Working Capital as finally determined pursuant to this Section 2.11, minus the Estimated Net Working Capital, plus (B) the Estimated Indebtedness, minus the Closing Indebtedness as finally determined pursuant to this Section 2.11, plus (C) the Closing Cash as finally determined pursuant to this Section 2.11, minus the Estimated Cash, plus (D) the Estimated Transaction Expenses, minus the Closing Transaction Expenses as finally determined pursuant to this Section 2.11;

(ii) If the Net Adjustment Amount is positive, the Merger Consideration shall be adjusted upwards in an amount equal to the Net Adjustment Amount. In such event, the Acquiror shall (A) pay the Net Adjustment Amount to the Stockholder Representative within five Business Days of the final determination thereof for delivery to the Securityholders (x) in respect of amounts owed in respect of the Notes and (y) to the extent any amounts remain after payments are made in respect of the Notes, any amounts due pursuant to Section 2.6(a) and (B) deliver written instructions to the Escrow Agent to release the entire Working Capital Escrow Fund to the Stockholder Representative for further distribution to the Securityholders;

(iii) If the Net Adjustment Amount is negative (in which case the “Net Adjustment Amount” for purposes of this clause (iii) shall be deemed to be equal to the absolute value of such amount), the Merger Consideration shall be adjusted downwards in an amount equal to the Net Adjustment Amount. In such event, the Acquiror and the Stockholder Representative shall promptly deliver joint written instructions to the Escrow Agent specifying the Net Adjustment Amount, and directing the Escrow Agent to pay the Net Adjustment Amount within five (5) Business Days out of the Working Capital Escrow Fund to the Acquiror and pay the remaining amounts, if any, in the Working Capital Escrow Fund to the Stockholder Representative for further distribution to the Securityholders, all in accordance with the terms of the Escrow Agreement. To the extent the Working Capital Escrow Fund is insufficient to cover the full Net Adjustment Amount, then the Acquiror and the Stockholder Representative shall deliver joint written instruction to the Escrow Agent to pay the amount of such deficiency to the Acquiror out of the Escrow Fund in accordance with the terms of the Escrow Agreement; and

(iv) If the Net Adjustment Amount is zero, then no payment shall be made with respect thereto by any party to this Agreement.

Section 2.12 Withholding Rights. Each of the Acquiror, the Company, the Surviving Corporation, the Escrow Agent and the Stockholder Representative shall be entitled to deduct and withhold from any consideration otherwise payable to any Person pursuant to this Agreement such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code, or any provision of applicable Tax Law. To the extent that such amounts are so withheld or paid over to or deposited with the relevant Governmental Authority by the Acquiror, the Company, the Surviving Corporation, the Escrow Agent or the Stockholder Representative, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the applicable Person in respect to which such deduction and withholding was made.

Section 2.13 Stockholder Representative.

(a) Immediately upon the approval of this Agreement by the requisite vote or written consent of the Stockholders, each Securityholder shall be deemed to have consented to the appointment of New Mountain Partners, L.P. as such Person's representative and attorney-in-fact (the "Stockholder Representative"), with full power of substitution to act on behalf of the Securityholders to the extent and in the manner set forth in this Agreement. All decisions, actions, consents and instructions by the Stockholder Representative shall be binding upon all of the Securityholders, and no Securityholder shall have the right to object to, dissent from, protest or otherwise contest the same. The Acquiror shall not have the right to object to, dissent from, protest or otherwise contest the authority of the Stockholder Representative. The Acquiror and Merger Sub shall be entitled to rely on any decision, action, consent or instruction of the Stockholder Representative as being the decision, action, consent or instruction of the Securityholders, and the Acquiror and Merger Sub are hereby relieved from any liability to any Person for acts done by them in accordance with any such decision, act, consent or instruction. Each of the Acquiror, Merger Sub and the Surviving Corporation hereby waive, and by their approval of this Agreement, the Securityholders shall be deemed to have waived, any claims they may have or assert, including those that may arise in the future, against the Stockholder Representative for any action or inaction taken or not taken by the Stockholder Representative in connection with such person's capacity as Stockholder Representative except to the extent that such action or inaction shall have been held by a court of competent jurisdiction to constitute willful misconduct. Any notice or communication delivered by Acquiror, Merger Sub or the Surviving Corporation to the Stockholder Representative shall, as between Acquiror, Merger Sub and the Surviving Corporation, on the one hand, and the Securityholders, on the other hand, be deemed to have been delivered to all Securityholders.

(b) The Stockholder Representative shall have the right to recover from, in its sole discretion, the Stockholder Representative Expense Holdback Amount and upon final release thereof, any remaining Escrow Amount, prior to any distribution to the Securityholders, the Stockholder Representative's documented reasonable out-of-pocket expenses incurred in the performance of its duties hereunder, including, without limitation, those resulting from the employment of financial advisors, attorneys, auditors and other advisors and agents assisting in the assessment of arbitration, litigation and settlement of any disputes arising under this Agreement. In the event that the funds remaining in respect of the Stockholder Representative Holdback Amount and the Escrow Amount are at any time insufficient to satisfy such amounts, then each Securityholder will be obligated (severally) to pay its pro rata portion of such deficit based upon the portion of the Merger Consideration received by such Securityholder.

(c) The Stockholder Representative may resign at any time, and may be removed for any reason or no reason by the vote or written consent of the Securityholders at the Effective Time (the "Majority Holders"). In the event of the death, incapacity, resignation or removal of the Stockholder Representative, a new Stockholder Representative shall be appointed by the vote or written consent of the Majority Holders. Notice of such vote or a copy of the written consent appointing such new Stockholder

Representative shall be sent to the Acquiror and, after the Effective Time, to the Surviving Corporation, such appointment to be effective upon the later of the date indicated in such consent or the date such consent is received by the Acquiror and, after the Effective Time, the Surviving Corporation.

**ARTICLE III
REPRESENTATIONS AND WARRANTIES
OF THE COMPANY**

Except as set forth in the Disclosure Schedules attached hereto (collectively, the “Disclosure Schedules”), the Company hereby represents and warrants to the Acquiror and Merger Sub as of the date hereof as follows:

Section 3.1 Organization and Qualification.

(a) Each of the Company and its Subsidiaries is (i) a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation as set forth in Schedule 3.1(a) of the Disclosure Schedules, and has all necessary corporate power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted and (ii) duly qualified as a foreign corporation to do business, and is in good standing, in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its business makes such qualification necessary, except, in each case, for any such failures that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(b) The Company has heretofore furnished to the Acquiror a complete and correct copy of the certificate of incorporation and bylaws or equivalent organizational documents, each as amended to date, of the Company and each of its Subsidiaries. Such certificates of incorporation, bylaws or equivalent organizational documents are in full force and effect.

Section 3.2 Authority.

(a) The Company has full corporate power and authority to execute and deliver this Agreement and each of the Ancillary Agreements to which it will be a party and subject to obtaining approval of the Stockholders representing a majority of the outstanding Shares (“Company Stockholder Approval”) in accordance with Section 5.2, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance by the Company of this Agreement and each of the Ancillary Agreements to which the Company will be a party and the consummation by the Company of the transactions contemplated hereby and thereby have been duly and validly authorized by the Board of Directors of the Company. Except for obtaining Company Stockholder Approval, no other corporate proceedings on the part of the Company are necessary to authorize the execution, delivery or performance of this Agreement or any Ancillary Agreement or to consummate the transactions contemplated hereby or thereby. This Agreement has been, and upon their execution each of the Ancillary Agreements to which the Company will be a party will have

been, duly executed and delivered by the Company and, assuming due execution and delivery by each of the other parties hereto and thereto, this Agreement constitutes, and upon their execution each of the Ancillary Agreements to which the Company will be a party will constitute, the legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general principles of equity (regardless of whether considered in a proceeding in equity or at law).

(b) The Board of Directors of the Company, at a meeting thereof duly called and held, (i) determined that this Agreement and the Merger are fair to and in the best interests of the Company and its stockholders and (ii) resolved to recommend that the Company's stockholders approve and adopt this Agreement and the Merger.

Section 3.3 No Conflict; Required Filings and Consents.

(a) The execution, delivery and performance by the Company of this Agreement and each of the Ancillary Agreements to which the Company will be a party, and the consummation of the transactions contemplated hereby and thereby, do not and will not:

(i) conflict with or violate the certificate of incorporation or bylaws or equivalent organizational documents of the Company or any of its Subsidiaries;

(ii) subject to compliance with Section 3.3(b), conflict with or violate any Law applicable to the Company or any of its Subsidiaries or by which any property or asset of the Company or any of its Subsidiaries is bound or affected; or

(iii) conflict with, result in any breach of, constitute a default (or an event that, with notice or lapse of time or both, would become a default) under, require any consent of any Person pursuant to, or give to others any rights of termination, acceleration or cancellation of, or loss of benefits under any Contract;

except, in the case of clause (iii), for any such conflicts, violations, breaches, defaults or other occurrences that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect or that arise as a result of any facts relating to the Acquiror or any of its Affiliates.

(b) Neither the Company nor any of its Subsidiaries is required to file, seek or obtain any notice, authorization, approval, order, permit or consent of or with any Governmental Authority in connection with the execution, delivery and performance by the Company of this Agreement and each of the Ancillary Agreements to which the Company will be a party, or the consummation of the transactions contemplated hereby or thereby or in order to prevent the termination of any right, privilege, license or qualification of the Company or any of its Subsidiaries, except (i) for the filing of the Certificate of Merger with the Secretary of State of the State of Delaware, (ii) for such filings as may be required by any applicable federal or state securities or "blue sky" Laws, (iii) where failure to obtain such consent, approval, authorization or action, or to make such filing or notification, would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect or (iv) as may be necessary as a result of any facts or circumstances relating to the Acquiror or any of its Affiliates.

(c) No “fair price,” “interested shareholder,” “business combination” or similar provision of any state takeover Law is, or at the Effective Time will be, applicable to the transactions contemplated by this Agreement or the Ancillary Agreements.

Section 3.4 Capitalization. The Company’s authorized and outstanding capital stock is as set forth in Schedule 3.4 of the Disclosure Schedules. All of the Company’s issued and outstanding capital stock (i) is duly authorized for issuance, validly issued, fully paid and nonassessable, (ii) was not issued in violation of any purchase or call option, right of first refusal, subscription right, preemptive right or any similar rights and (iii) was issued in compliance with all applicable federal and state securities Laws. All of the Company’s issued and outstanding capital stock is owned of record by the holders and in their respective amounts as set forth on Schedule 3.4 of the Disclosure Schedules. The Shares constitute all of the issued and outstanding capital stock of the Company. Except as set forth on Schedule 3.4 of the Disclosure Schedules, as of immediately prior to the Closing, there are no outstanding obligations, options, warrants, convertible securities or other rights, agreements, arrangements or commitments of any kind relating to the capital stock of the Company or obligating the Company to issue or sell any shares of capital stock of, or any other interest in, the Company. There are no outstanding contractual obligations of the Company to repurchase, redeem or otherwise acquire any shares of capital stock of the Company or to provide funds to, or make any investment in, any other Person. There are no agreements or understandings in effect with respect to the voting, registration or transfer of any of the capital stock of the Company.

Section 3.5 Equity Interests. Except for the Subsidiaries listed in Schedule 3.5 of the Disclosure Schedules, neither the Company nor any of its Subsidiaries directly or indirectly owns any equity, partnership, membership or similar interest in, or any interest convertible into, exercisable for the purchase of or exchangeable for any such equity, partnership, membership or similar interest in, any Person. The authorized and outstanding capital stock of each Subsidiary of the Company is as set forth in Schedule 3.5 of the Disclosure Schedules. The issued and outstanding capital stock of each of the Subsidiaries of the Company (i) is duly authorized for issuance, validly issued, fully paid and nonassessable, (ii) was not issued in violation of any purchase or call option, right of first refusal, subscription right, preemptive right or any similar rights and (iii) was issued in compliance with all applicable federal and state securities Laws. The issued and outstanding capital stock of each of the Subsidiaries of the Company is owned of record by the holders and in their respective amounts as set forth on Schedule 3.5 of the Disclosure Schedules, which is all of the issued and outstanding capital stock of such Subsidiaries. There are no outstanding obligations, options, warrants, convertible securities or other rights, agreements, arrangements or commitments of any kind relating to the capital stock of any of the Subsidiaries of the Company or obligating such Subsidiaries to issue or sell any shares of capital stock of, or any other interest in, such Subsidiaries. There are no outstanding contractual obligations of any of the Subsidiaries of the Company to repurchase, redeem or otherwise acquire any shares of capital stock of such Subsidiaries or to provide funds to, or make any investment in, any other Person. There are no agreements or understandings in effect with respect to the voting, registration or transfer of any of the capital stock of any Subsidiaries of the Company.

Section 3.6 Financial Statements; No Undisclosed Liabilities.

(a) Copies of the audited consolidated balance sheet of the Company and its Subsidiaries as at December 31, 2013 and December 31, 2012 and the related audited consolidated statements of income, retained earnings, stockholders' equity and changes in financial position of the Company and its Subsidiaries, together with all related notes and schedules thereto, accompanied by the reports thereon of the Company's independent auditors (collectively referred to as the "Financial Statements") and the unaudited consolidated balance sheet of the Company and its Subsidiaries as at September 30, 2014 (the "Balance Sheet"), and the related consolidated statements of income, retained earnings, stockholders' equity and changes in financial position of the Company and its Subsidiaries, together with all related notes and schedules thereto (collectively referred to as the "Interim Financial Statements"), are attached hereto as Schedule 3.6(a) of the Disclosure Schedules. Each of the Financial Statements and the Interim Financial Statements (i) has been prepared based on the books and records of the Company and its Subsidiaries (except as may be indicated in the notes thereto), (ii) has been prepared in accordance with GAAP applied on a consistent basis throughout the periods indicated (except as may be indicated in the notes thereto) and (iii) fairly presents, in all material respects, the consolidated financial position, results of operations and cash flows of the Company and its Subsidiaries as at the respective dates thereof and for the respective periods indicated therein, except as otherwise noted therein and subject, in the case of the Interim Financial Statements, to normal and recurring year-end adjustments and the absence of notes. Since December 31, 2012, there has been no change in any accounting policy or practice and no material change in any accounting procedure of the Company or its Subsidiaries, except for such changes described in the Financial Statements or required by Law.

(b) To the Knowledge of the Company, there are no material debts, liabilities or obligations, whether accrued or fixed, absolute or contingent, matured or unmatured or determined or determinable, of the Company or any of its Subsidiaries of a nature required to be reflected on a balance sheet prepared in accordance with GAAP, other than any such debts, liabilities or obligations (i) reflected or reserved against on the Interim Financial Statements, the Financial Statements or the notes thereto, (ii) incurred since the date of the Balance Sheet in the Ordinary Course of Business, or (iii) for Taxes.

(c) Except as would not reasonably be expected to be materially adverse to the Company and its Subsidiaries taken as a whole, to the Knowledge of the Company, the Company and its Subsidiaries maintain books and records reflecting their respective assets, liabilities, revenues and expenses, and maintain internal accounting controls and procedures designed to provide reasonable assurance (i) that transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP, (ii) that revenues, expenses, accounts, notes and other receivables are recorded as required by GAAP and (iii) regarding policies designed to prevent or timely detect fraudulent acquisition, use or disposition of assets of the Company and its Subsidiaries.

Section 3.7 Absence of Certain Changes or Events. Since the date of the Balance Sheet, (x) the Business has been conducted, in all material respects, in the Ordinary

Course of Business, (y) there has not been any event, change, occurrence or circumstance that, individually or in the aggregate with any such events, changes, occurrences or circumstances, has had or could reasonably be expected to have a Material Adverse Effect, and (z) neither the Company nor any of its Subsidiaries has:

(a) amended its certificate of incorporation or bylaws or equivalent organizational documents;

(b) issued or sold any shares of capital stock of the Company or any of its Subsidiaries, or any options, warrants, convertible securities or other rights of any kind to acquire any such shares or equity interests, except in connection with the exercise or vesting of the Options;

(c) declared, set aside, made or paid any non-cash dividends or other non-cash distributions (whether in stock, property or otherwise) with respect to any of its capital stock, except for dividends, distributions or other payments by any direct or indirect wholly owned Subsidiary of the Company to the Company or any other wholly owned Subsidiary of the Company;

(d) made or changed any material Tax election or method of Tax accounting;

(e) reclassified, combined, split, subdivided or redeemed, or purchased or otherwise acquired, directly or indirectly, any of its capital stock or made any other change with respect to its capital structure;

(f) acquired any corporation, partnership, limited liability company, other business organization or division thereof or any assets other than assets in the Ordinary Course of Business;

(g) except for the Merger, adopted a plan of complete or partial liquidation, dissolution, merger, consolidation or recapitalization of the Company or any of its Subsidiaries;

(h) incurred any indebtedness for borrowed money that will not be discharged at Closing;

(i) authorized, or made any commitment with respect to, any single capital expenditure that was in excess of \$20,000 or capital expenditures that were, in the aggregate, in excess of \$100,000 for the Company and its Subsidiaries taken as a whole;

(j) failed to exercise any rights of renewal with respect to any material Leased Real Property that by its terms would otherwise have expired;

(k) granted or announced any increase in the salaries, bonuses or other benefits payable by the Company or any of its Subsidiaries to any of their employees, other than (i) as required by Law, (ii) pursuant to any plans, programs or agreements then existing or (iii) other ordinary increases in salaries to employees who were not officers that were not inconsistent with the past practices of the Company or such Subsidiary;

(l) instituted any material increase in, or entered into, or terminated or adopted any Employee Plan other than as required by any such existing Employee Plan or by Law or as would not be binding on the Acquiror, the Company or its Subsidiaries;

(m) entered into any transaction or Contract with any stockholder, officer, director or Affiliate of the Company or any of its Subsidiaries;

(n) terminated early any material insurance policies currently maintained by the Company or its Subsidiaries;

(o) terminated early any material Permit;

(p) materially delayed or postponed the payment of accounts payables or accelerated the collection of, or discount, accounts receivables, other than in the Ordinary Course of Business;

(q) initiated or settled any Action;

(r) sold, leased or otherwise disposed of any asset with a value of more than \$20,000 individually or \$100,000 in the aggregate;

(s) made any change in any method of accounting or accounting practice or policy, except as required by applicable Law or the Applicable Accounting Principles; or

(t) committed to do any of the foregoing.

Section 3.8 Compliance with Law; Permits; Regulatory Filings.

(a) To the Knowledge of the Company, each of the Company and its Subsidiaries is and has been in compliance for the prior three (3) years from the date of this Agreement in all material respects with all Laws applicable to it. To the Knowledge of the Company, the Company has not received any written communication that alleges that the Company is, or may be, in violation of, or has any material liability under, any applicable Law.

(b) Each of the Company and its Subsidiaries is in possession of all material: permits, licenses, franchises, approvals, certificates, consents, waivers, concessions, exemptions, orders, registrations, notices or other authorizations of any Governmental Authority necessary for each of the Company and its Subsidiaries to own, lease and operate its properties and to carry on its business as currently conducted (the "Permits"). Schedule 3.8(b) of the Disclosure Schedules sets forth a true and complete list of the Permits. Since January 1, 2011, the Company has not received any citation, suspension, revocation, limitation, warning or similar notice issued by any Governmental Authority with respect to its business, activities, conduct or operations or Permits that has not been resolved to the Governmental Authority's satisfaction or is not in the process of resolution.

(c) The Company has filed all reports, statements, documents, registrations, filings or submissions required by Law to be filed by them with any Governmental Authority, and except for those the absence of which would not have a Material Adverse Effect. All such

registrations, filings and submissions were in compliance in all material respects with applicable Law when filed or as amended or supplemented, and, to the Knowledge of the Company, no material deficiencies have been asserted by any Governmental Authority with respect to such registrations, filings or submissions that have not been satisfied.

(d) Without limiting the generality of the foregoing, the Company and the Subsidiaries are and have been in compliance with the U.S. Foreign Corrupt Practices Act (15 U.S.C. § 78m and 15 U.S.C. § 78dd-1 et seq.), and analogous applicable Laws and regulations of all other jurisdictions in which they conduct business pertaining to improper payments to government officials and the related books and records provisions of such Laws and regulations.

Section 3.9 Litigation. As of the date hereof and except as set forth on Schedule 3.9 of the Disclosure Schedules, there is no Action by or against the Company or any of its Subsidiaries pending, or to the Knowledge of the Company, threatened in writing that would, individually or in the aggregate, reasonably be expected to materially affect the Business, or would affect the legality, validity or enforceability of this Agreement or any Ancillary Agreement or the consummation of the transactions contemplated hereby or thereby. Neither the Company nor any of its Subsidiaries has waived, agreed to waive or consented to the tolling of any statute of limitations in any material Action. Neither the Company nor any of its Subsidiaries has waived or agreed to waive any monetary or non-monetary obligations required to be performed (or otherwise complied with) in connection with any Action for the benefit of the Company after the Closing Date, which waiver would reasonably be expected to be materially adverse to the Company and its Subsidiaries, taken as a whole. There is no Action which the Company or any of its Subsidiaries currently intends to initiate, commence or file.

Section 3.10 Employee Benefit Plans.

(a) Schedule 3.10(a) of the Disclosure Schedules sets forth a list of all material Employee Plans. For purposes hereof, "Employee Plans" means (i) all employee benefit plans (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) and all material bonus, stock option, stock purchase, restricted stock, incentive, deferred compensation, retiree medical or life insurance, supplemental retirement, severance or other benefit plans, programs or arrangements, that are maintained, contributed to or required to be contributed to or sponsored by the Company or any Subsidiary for the benefit of any current or former employee, officer or director of the Company or any Subsidiary or under which the Company has any liability contingent or otherwise and (ii) all employment, termination, severance or other Contracts, agreements or arrangements, pursuant to which the Company or any Subsidiary currently has any obligation with respect to any current or former employee, officer or director of the Company or any of its Subsidiaries. The Company has made available to the Acquiror a true and complete copy of each Employee Plan and all current summary plan descriptions and the most recent determination letter from the IRS with respect to any Employee Plan.

(b) Each Employee Plan has been maintained in all material respects in accordance with its terms and the requirements of ERISA and the Code. Each of the Company and its Subsidiaries has performed all material obligations required to be performed by it under

any Employee Plan and is not in default under or in violation of any Employee Plan and no Action (other than claims for benefits in the Ordinary Course of Business) is pending or, to the Knowledge of the Company, threatened in writing with respect to any Employee Plan by any current or former employee, officer or director of the Company or any of its Subsidiaries.

(c) Each Employee Plan that is intended to be qualified under Section 401(a) of the Code has received a determination or opinion letter from the IRS that it is so qualified and each related trust that is intended to be exempt from federal income taxation under Section 501(a) of the Code has received a determination or opinion letter from the IRS that it is so exempt and no fact or event has occurred that would reasonably be expected to adversely affect the qualified status of any such Employee Plan or the exempt status of any such trust.

(d) No Employee Plan is subject to Title IV of ERISA or Section 412 of the Code, is a “multiemployer plan” (within the meaning of Section 3(37) of ERISA) or provides post-termination welfare benefits except to the extent required by Section 4980B of the Code or any similar Law. The Company and its Subsidiaries have no direct or contingent liability with respect to any plan that is: (i) subject to Title IV of ERISA, (ii) a “multiemployer plan” or (iii) which provides post-termination welfare benefits (including, without limitation, by virtue of the ERISA Affiliate status of any entity that sponsors or contributes to any such plan).

(e) Neither the Company, any of its Subsidiaries nor any ERISA Affiliate is a party to any Contract that could, alone or in combination with any other payments, events or occurrences, result, separately or in the aggregate, in the payment, acceleration or enhancement of any benefit as a result of the transactions contemplated by this Agreement and the Ancillary Agreements, including, without limitation, the payment of any “excess parachute payments” within the meaning of Section 280G of the Code.

(f) To the Knowledge of the Company, each Employee Plan that constitutes a “non-qualified deferred compensation plan” within the meaning of Section 409A of the Code, complies in both form and operation with the requirements of Section 409A of the Code so that no amounts paid pursuant to any such Employee Plan is subject to tax under Section 409A of the Code.

(g) Except as would not reasonably be expected to result in a Material Adverse Effect, each of the Company and each ERISA Affiliate has, for purposes of each Employee Plan and for all other purposes, correctly classified all individuals performing services for the Company or its Subsidiaries as common law employees, leased employees, independent contractors or agents, as applicable.

(h) There are no material unfunded pension benefits or deferred compensation (as defined in Section 409A of the Code) liabilities of the Company or any of its Subsidiaries under any Employee Plan.

Section 3.11 Labor and Employment Matters.

(a) Neither the Company nor any of its Subsidiaries is a party to any labor or collective bargaining contract that pertains to employees of the Company or any of its Subsidiaries. To the Knowledge of the Company, (1) there are no organizing activities or

collective bargaining arrangements that would affect the Company or any of its Subsidiaries pending or under discussion with any labor organization or group of employees of the Company or any of its Subsidiaries, (2) there are no Actions which involve the labor or employment relations of the Company or any of its Subsidiaries; and (3) to the Knowledge of the Company, there are no organization campaigns, petitions or other unionization activities seeking recognition of a collective bargaining unit at any Company location, requests for representation, pickets, lockets, strikes, work slowdowns or work stoppages pending or threatened by or with respect to any employees of the Company or any of its Subsidiaries that would, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(b) Other than as set forth in Schedule 3.11(b) of the Disclosure Schedule, all common law and statutory employees have been fully paid in all material respects all wages and benefits owed under any federal, state, and local Law, including overtime, vested or pro-rated bonuses, benefits currently payable to employees or former employees such as vacation or paid time off, and any other compensation for work and services performed for the Company or any of its Subsidiaries through the Closing Date.

(c) To the Knowledge of the Company there are no past, pending or threatened audits, investigations or other claims by any Governmental Authority concerning the employee status of any independent contractor of the Company or any of its Subsidiaries, and except as otherwise disclosed in Schedule 3.11(c) of the Disclosure Schedules, no other Governmental Authority has in the past three (3) years determined that any independent contractor who performs or performed services for the Company or any of its Subsidiaries is or was a misclassified employee. Other than as set forth on Schedule 3.11(c), there are no pending, or to the Knowledge of the Company, threatened claims by any current or former individuals who have been or are classified by the Company as independent contractors concerning their eligibility for benefits under any Employee Plan.

(d) To the Knowledge of the Company, there are no employment-related claims, lawsuits, charges, actions, investigations, or proceedings filed or threatened against the Company or any of its Subsidiaries by any employee or former employee or any individuals who have been or are classified by the Company as independent contractors or pending before the United States Equal Employment Opportunity Commission, any court, forum, or any other Governmental Authority.

(e) No senior management employee of the Company or any of its Subsidiaries has been given notice, or has given notice, that he or she intends to terminate the employment relationship, whether as a result of the transactions contemplated by this Agreement or otherwise.

(f) Neither the Company nor any of its Subsidiaries has effectuated a “plant closing” or “mass layoff” as defined by the federal Worker Adjustment and Retraining Notification Act of 1988 (the “WARN Act”) or any similar local, state or foreign Law requiring notice to employees, affecting any site of employment or facility of the Company or any of its Subsidiaries, nor has the Company or any of its Subsidiaries been affected by any transaction or engaged in layoffs or employment terminations sufficient to trigger application of any state, local or foreign Law or regulation similar to the federal WARN Act, including triggering application by a rolling “employment loss” (as defined in the WARN Act), with respect to which the Company or any Subsidiary has an unsatisfied liability.

Section 3.12 Insurance. Schedule 3.12 of the Disclosure Schedules sets forth a true and complete list of all insurance policies in force with respect to the Company and its Subsidiaries. All such policies are in full force and effect and, to the Knowledge of the Company, shall remain in effect following the Closing without material change and all premiums due and payable in respect thereof have been fully accrued for or paid. Since the respective dates of such policies, no notice of cancellation, termination or non-renewal with respect to, or notice of disallowance or denial of any claim under, any such policy has been received by the Company or any Subsidiary thereof. There are no outstanding unpaid and overdue premiums under such policies. There are no claims pending under such policies.

Section 3.13 Real Property.

(a) None of the Company or any of its Subsidiaries owns any real property.

(b) Schedule 3.13(b) of the Disclosure Schedules lists the street address of each parcel of Leased Real Property and the identity of the lessor, lessee and current occupant (if different from lessee) of each such parcel of Leased Real Property. The Company or its Subsidiaries have a valid leasehold estate in all Leased Real Property, free and clear of all Encumbrances, other than Permitted Encumbrances and any such exceptions that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each of the written leases for the Leased Real Property (the "Leases") in respect of the Leased Real Property are in full force and effect, neither the Company nor any of its Subsidiaries has received any written notice of a breach of default thereunder, and to the Knowledge of the Company, no event has occurred that, with notice or lapse of time or both, would constitute a breach or default thereunder, except for any such breaches or defaults that would not, individually or in the aggregate, reasonably be expected to have Material Adverse Effect. Each of the Leases has been previously delivered to the Acquiror. The Company and its Subsidiaries have not subleased any Leased Real Property. The Leased Real Property is not subject to any material licenses, concessions, leases or tenancies. All rent, additional rent and other charges due under the Leases will be paid in full through the Closing Date. To the Company's Knowledge, there are no defaults on the part of any landlord of the Company and its Subsidiaries under the Leases. The Company and its Subsidiaries have performed all of the obligations on their part to be performed under the Leases. The Company has not received any claims by any landlord against the Company and its Subsidiaries under the Leases. There are no rent concessions, abatements, or contributions owed to the Company and its Subsidiaries under the Leases. No written consent of any landlord under the Leases is required or necessary in order to consummate the transactions contemplated by this Agreement except as otherwise provided on the Schedule 3.13(b) of the Disclosure Schedules.

(c) None of the Company or any of its Subsidiaries have received written notice that the use or occupancy of the Leased Real Property violates any covenants, conditions or restrictions that encumber such property, or that any such property is subject to any restriction for which any permits necessary to the current use thereof have not been obtained.

(d) There are no pending or, to the Knowledge of the Company, threatened condemnation proceedings with respect to any portion of the Leased Real Property. There are no actual or, to the Knowledge of the Company, threatened or imminent changes in the present zoning of any Leased Real Property or any part thereof or any restrictions, limitations or regulations issued, or, to the Knowledge of the Company, proposed or under consideration by any Government Authority having or asserting jurisdiction over the Leased Real Property.

Section 3.14 Intellectual Property.

(a) Schedule 3.14(a)(i) of the Disclosure Schedules sets forth an accurate and complete list of all registered and applied-for Marks owned by the Company or any of its Subsidiaries (collectively, the “Company Registered Marks”), Schedule 3.14(a)(ii) of the Disclosure Schedules sets forth an accurate and complete list of all issued and applied-for Patents owned by the Company or any of its Subsidiaries (collectively, the “Company Patents”) and Schedule 3.14(a)(iii) of the Disclosure Schedules sets forth an accurate and complete list of all registered and applied-for Copyrights owned by the Company or any of its Subsidiaries (collectively, the “Company Registered Copyrights” and, together with the Company Registered Marks and the Company Patents, the “Company Registered IP”). No Company Registered IP is involved in any interference, reissue, reexamination, opposition or cancellation proceeding.

(b) There are no facts that, to the Knowledge of the Company, leads the Company to believe that any of the Company Patents were not prosecuted, or any of the Company Patents are not being prosecuted, in compliance with 37 C.F.R. §1.56.

(c) Except as would not reasonably be expected to result in a Material Adverse Effect, the Company and its Subsidiaries have taken reasonable steps to maintain the confidentiality of all material Trade Secrets of the Company, including requiring that all employees and independent contractors enter into confidentiality agreements in the Company’s standard forms.

(d) All tangible materials embodying Intellectual Property that the Company or any of its Subsidiaries are using in the conduct of their respective businesses as currently conducted are owned by the Company or such Subsidiary or have been licensed to the Company or such Subsidiary by the third party from which the Company or such Subsidiary obtained such materials.

(e) To the Knowledge of the Company, (i) the Closing will not impair the rights of the Company or any of its Subsidiaries with respect to any Intellectual Property owned by or licensed to any of them, or require the payment of any royalty or license or other fees that the Company or any of its Subsidiaries would not owe but for the occurrence of the Closing, (ii) none of the agreements entered into by the Company or any of its Subsidiaries relating to Intellectual Property owned by any third party (excluding commercially available off-the-shelf license agreements licensed for an aggregate fee of \$100,000 or less) require such third party to consent to the Closing or to any of the transactions contemplated by this Agreement, and (iii)

neither the Company nor its Subsidiaries jointly own, with any Person other than the Company or its Subsidiaries, any Company Registered IP or any other material Intellectual Property owned by the Company or its Subsidiaries.

(f) None of the products or services distributed, sold or offered by the Company or any of its Subsidiaries, nor any technology or materials used in connection therewith, infringes upon or misappropriates any Intellectual Property of any third party and the Company has not received within the prior 12 months any written notice asserting that any such infringement or misappropriation has occurred. To the Knowledge of the Company, no third party is misappropriating or infringing any material Intellectual Property owned by the Company or any of its Subsidiaries.

(g) Except as would not reasonably be expected to have a Material Adverse Effect, all who have participated in the authorship, creation or development of any Intellectual Property purported to be owned by the Company or any of its Subsidiaries have executed and delivered to the Company or its Subsidiaries an agreement assigning or agreeing to assign to the Company or its Subsidiaries all such person's right, title and interest in such Intellectual Property. Neither the Company nor any of its Subsidiaries has received written notice from any such person claiming to have an ownership interest in any of such Intellectual Property.

(h) Schedule 3.14(h) of the Disclosure Schedules identifies the material Third Party Software that is necessary or used by the Company or any of its Subsidiaries to conduct the Business, including (i) the Third Party Software that is licensed to the Company or any of its Subsidiaries; and (ii) the Third Party Software that is (x) licensed to any of its Affiliates on an enterprise basis by a third party, (y) readily available in the commercial market (so-called "off the shelf" software), or (z) distributed under an open source license, in each case, licensed for an aggregate fee of more than \$100,000. The Company and its Subsidiaries are in compliance with the terms of all licenses governing Third Party Software except for such non-compliances (1) that do not impact the proprietary nature of the products or services of the Company or any of its Subsidiaries or (2) as would not reasonably be expected to have a Material Adverse Effect. None of the products sold by the Company or any of its Subsidiaries includes Software that is required to be disclosed or distributed in source code form, be licensed for the purpose of making derivative works or be redistributable at no or minimal charge as a result of any use, modification or distribution of any Third Party Software.

(i) The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby will not (i) constitute a breach of any instrument or agreement governing any Third Party Software or Intellectual Property owned by third parties; (ii) cause the forfeiture or termination or give rise to a right of forfeiture or termination of any rights in Third Party Software or Intellectual Property owned by third parties; or (iii) otherwise impair the right of the Company or any of its Subsidiaries, following the Closing, to use or otherwise exploit, assert or enforce any Third Party Software or Intellectual Property owned by third parties, in each case except as would not reasonably be expected to have a Material Adverse Effect.

Section 3.15 Taxes.

(a) Each of the Company and its Subsidiaries has timely filed all Returns in respect of Income Taxes and all other material Returns that it was required to file. All such Returns are true, complete and correct in all material respects and were prepared in substantial compliance with applicable Laws. None of the Company or any of its Subsidiaries currently is the beneficiary of any extension of time within which to file any Return that has not been filed.

(b) Each of the Company and its Subsidiaries has (i) timely paid all Taxes shown as due on any Return and all other material Taxes due; and (ii) withheld and paid over all material federal, state, local and foreign Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder, or other third party. To the Knowledge of the Company, no claim has ever been made in writing by a Governmental Authority in a jurisdiction where the Company or any of its Subsidiaries does not file Returns that the Company or any Subsidiary thereof is or may be subject to taxation by that jurisdiction. There are no Encumbrances for Taxes (other than Permitted Encumbrances) upon any of the assets of the Company or any of its Subsidiaries.

(c) The Company has no Knowledge that any Governmental Authority will assess any additional Taxes for any period for which Returns have been filed. No administrative or judicial Tax proceedings are pending or being contested with respect to the Company or any of its Subsidiaries, and none of the Company nor any of its Subsidiaries has received any notice of a Tax audit or other review, request for information related to Taxes, or deficiency or proposed adjustment for any amount of Tax. Neither the Company nor any of its Subsidiaries has executed any waiver of any statute of limitations on or extending the period for the assessment or collection of any Tax which waiver or extension is currently in effect. No issues have been raised by the relevant Governmental Authority in any completed audit or examination of the Company or any of its Subsidiaries that are reasonably expected to result in a liability on the part of the Company for a material amount of Taxes after the Closing.

(d) Neither the Company nor any of its Subsidiaries has any material liability for unpaid Taxes as of the dates of the Financial Statements that has not been properly reflected in the Financial Statements in conformity with GAAP.

(e) The Company has delivered to the Acquiror copies of all federal, state and local Returns with respect to Income Taxes and all other material Returns filed with respect to the Company and its Subsidiaries for taxable periods ended 2011 through 2013, and copies of all Tax audit or examination reports and statements of deficiencies assessed against or agreed to by the Company since January 1, 2011.

(f) Neither the Company nor any of its Subsidiaries will be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing as a result of any (i) change in method of accounting for a Tax period prior to the Closing; (ii) closing agreement as defined in Section 7121 of the Code (or any corresponding or similar provision of state, local or foreign tax law) executed on or prior to the Closing; (iii) intercompany transaction or excess loss account described in Treasury Regulations under Section 1502 of the Code (or any corresponding or

similar provision of state, local or foreign tax law); (iv) installment sale or open transaction disposition made on or prior to the Closing Date; (v) prepaid amount received on or prior to the Closing Date; and (vi) an election under Section 108(i) of the Code.

(g) Neither the Company nor any of its Subsidiaries has been a party to a transaction that is a “listed transaction,” as such term is defined in Section 6707A(c)(2) of the Code and Treasury Regulations Section 1.6011-4(b)(2).

(h) Neither the Company nor any of its Subsidiaries has been a member of an affiliated group filing a consolidated federal income Return (other than a group the common parent of which is the Company). None of the Company nor any of its Subsidiaries has (i) any liability for the Taxes of any Person (other than Taxes of the Company or any of its Subsidiaries) (A) under Treasury Regulation Section 1.1502-6 (or any similar provision of state, local, or foreign Law), (B) as a transferee or successor or (C) by Contract, or (ii) been a party to, or bound by, any Tax indemnity agreement, Tax sharing agreement, Tax allocation agreement or similar Contract.

(i) Neither the Company nor any of its Subsidiaries has distributed stock of another Person, nor had its stock distributed by another Person in a transaction that was purported or intended to be governed in whole or in part by Section 355 of the Code.

(j) Neither the Company nor any of its Subsidiaries is, nor has been, a United States real property holding corporation (as defined in Section 897(c)(2) of the Code) during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code.

(k) Neither the Company nor any of its Subsidiaries owns any debt or equity interest in any other Person other than stock of the Subsidiaries of the Company.

(l) Neither the Company nor any of its Subsidiaries (i) was formed outside the United States, (ii) has ever had a permanent establishment or an office or fixed place of business in a country other than the United States, nor (iii) is, or ever was, subject to taxation by a jurisdiction other than the United States, and relevant state and local jurisdictions within the United States.

Section 3.16 Environmental Matters.

(a) Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, (i) the Company and its Subsidiaries are in compliance with all applicable Environmental Laws and have obtained and are in compliance with all Environmental Permits and (ii) there are no written claims alleging violation of or liability pursuant to any Environmental Law pending or, to the Knowledge of the Company, threatened against the Company or its Subsidiaries.

(b) The representations and warranties contained in this Section 3.16 are the only representations and warranties being made with respect to compliance with or liability under Environmental Laws or with respect to any environmental, health or safety matter, including natural resources, related to the Company or its Subsidiaries.

(c) For purposes of this Agreement:

(i) “Environmental Laws” means any Laws of any Governmental Authority in effect as of the date hereof relating to protection of the environment; and

(ii) “Environmental Permits” means all Permits required under any Environmental Law for the operation of the Business.

Section 3.17 Material Contracts.

(a) Schedule 3.17 of the Disclosure Schedules lists each of the following Contracts of the Company and its Subsidiaries (such contracts and agreements as described or required to be listed in this Section 3.17(a) being “Material Contracts”) true and complete copies of which, including all amendments thereto, have been provided to the Acquiror:

(i) all Contracts with customers or clients that provided for payment or receipt by the Company or any of its Subsidiaries of more than \$750,000 in 2013 or projected for such payment or receipt in 2014;

(ii) all Contracts with vendors that provide for payment or receipt by the Company or any of its Subsidiaries of more than \$150,000 in 2013 or projected for such payment or receipt in 2014;

(iii) all Contracts under which the Company or any of its Subsidiaries granted a license to use any of their respective Intellectual Property;

(iv) all Contracts under which the Company or any of its Subsidiaries agreed to indemnify a third party in respect of claims for infringement or misappropriation of Intellectual Property;

(v) all Contracts relating to indebtedness for borrowed money;

(vi) all Contracts that limit or purport to limit the ability of the Company or any of its Subsidiaries to compete in any line of business or with any Person or in any geographic area or during any period of time;

(vii) all Contracts that are a lease or sublease of real property or interests in real property used in the business of the Company or any of its Subsidiaries;

(viii) all Contracts that are entered into with any Governmental Authority;

(ix) all employment, severance, change in control and offer Contracts between the Company or any of its Subsidiaries and any employee or independent contractor (other than an offer letter or employment agreement that is terminable at will by the Company or any of its Subsidiaries both without any penalty and without any obligation of the Company and any of its Subsidiaries) to pay severance in excess of \$50,000;

(x) all Contracts that relate to the acquisition, transfer, use, development, sharing or license of any technology or any Intellectual Property, other than (1) confidentiality agreements, (2) employment agreements, (3) consulting or advisory agreements, and (4) license agreements for off-the-shelf software licensed for an aggregate fee of not more than \$50,000, in each case entered into in the Ordinary Course of Business;

(xi) all material joint venture, partnership or similar agreements or arrangements; and

(xii) any other Contract that is material to the Company and its Subsidiaries, taken as a whole.

(b) Each Material Contract (i) is valid and binding on the Company or the applicable Subsidiary, as the case may be, and, to the Knowledge of the Company, the counterparties thereto, and is in full force and effect, except in each case as would not, individually or in the aggregate, reasonably be expected to materially affect the Business, and (ii) shall continue in full force and effect upon consummation of the transactions contemplated by this Agreement, except to the extent that any consents set forth in Schedule 3.3(a) of the Disclosure Schedules are not obtained, except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect or as a result of any facts relating to the Acquiror or any of its Affiliates. None of the Company or any of its Subsidiaries is in breach of, or default under, in any material respect, any Material Contract to which it is a party.

Section 3.18 Brokers. Schedule 3.18 of the Disclosure Schedules sets forth a true and complete list of all brokers, finders or investment bankers entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated hereby based upon arrangements made by or on behalf of the Company or any of its Subsidiaries.

Section 3.19 Exclusivity of Representations and Warranties. Neither the Company nor any other of its Affiliates or Representatives is making any representation or warranty of any kind or nature whatsoever, oral or written, express or implied, relating to the Company or its Subsidiaries (including, but not limited to, any relating to financial condition, results of operations, assets or liabilities of the Company and its Subsidiaries), except as expressly set forth in this Article III, and the Company hereby disclaims any such other representations or warranties.

Section 3.20 Accounts Receivable. Other than as would not reasonably be expected to materially affect the Company or any of its Subsidiaries, the accounts receivable reflected on the Financial Statements and Interim Financial Statements and the accounts receivable arising after the date thereof (i) arose from bona fide sales transactions in the Ordinary Course of Business, (ii) are, to the Knowledge of the Company, legal, valid and binding obligations of the respective debtors enforceable in accordance with their terms (except as the enforceability thereof may be limited by any applicable bankruptcy, reorganization, insolvency or other laws affecting creditors' rights generally or by general principles of equity), (iii) are not,

to the Knowledge of the Company, subject to any Action or valid set-off or counterclaim by the debtor, and (iv) do not represent obligations for goods sold on consignment, on approval or on a sale-or-return basis or subject to any other repurchase or return arrangement. As of the date hereof, neither the Company nor any of its Subsidiaries has received any material written notice from any account debtor regarding any dispute over any of the accounts receivable. To the Knowledge of the Company, none of the accounts receivable constitutes duplicate billings of other accounts receivable. There are no security arrangements or collateral securing the repayment or other satisfaction of the accounts receivable.

Section 3.21 Affiliate Transactions. Except as set forth on Schedule 3.21 of the Disclosure Schedules:

(a) no (i) stockholder, employee, officer or director of the Company or its Subsidiaries, (ii) Affiliate of the Company or any of its Subsidiaries, and (iii) to the Knowledge of the Company, “associate” or member of the “immediate family” of any stockholder, officer or director of the Company or any of its Subsidiaries, is indebted to the Company or its Subsidiaries and neither the Company nor its Subsidiaries is indebted or is committed to make loans or extend or guarantee credit to any of the foregoing Persons; and

(b) except in connection with their employment with the Company, no stockholder, officer, director or other Affiliate of the Company or its Subsidiaries, and to the Knowledge of the Company, no “associate” or member of the “immediate family” of any stockholder, officer or director has any material interest in any material asset used or held for use by, the Company or its Subsidiaries and, to the Knowledge of the Company, no employee or “associate” or member of the “immediate family” of any employee has any interest in any material asset used or held for use by, the Company or its Subsidiaries.

For purposes of this Section 3.21, the terms “associate” and “immediate family” shall have the meanings ascribed to such terms are respectively defined in Rule 12b-2 and Rule 16a-1 of the Securities and Exchange Act of 1934, as amended. Schedule 3.21 of the Disclosure Schedules sets forth all outstanding transactions, business dealings, Contracts, any other arrangements between the Company or any of its Subsidiaries, on the one hand, and any of the Stockholders or any of their respective Affiliates, on the other hand, but not including, for the avoidance of doubt, any Contract or other arrangement between the Company and any of its employees, directors or officers made in their capacities as such and not including any transaction, business dealing, Contract or other arrangement that is the result of an arm’s length negotiation and is on arm’s length terms.

Section 3.22 Customers and Suppliers. Schedule 3.22 of the Disclosure Schedules sets forth the 20 largest customers of the Company and its Subsidiaries and the 20 largest suppliers to the Company and its Subsidiaries (each as determined by monetary value) for the 12-month periods ended December 31, 2012 and December 31, 2013. To the Knowledge of the Company, within the preceding 12 months, no customer or supplier listed on Schedule 3.22 of the Disclosure Schedules has: (a) threatened to cancel or otherwise terminate, or intends to cancel or otherwise terminate, any relationships of such Person with the Company or its Subsidiaries, (b) decreased materially or threatened to stop, decrease or limit materially, or intends to modify materially its relationships with the Company or its Subsidiaries, or (c) intends

to refuse to pay any amount due to the Company or its Subsidiaries or seek to exercise any remedy against the Company or its Subsidiaries. Neither the Company nor any of its Subsidiaries has within the past 12 months been engaged in any material dispute with any such customer or supplier. To the Knowledge of the Company without discussions with, or inquiry of, any of the customers or suppliers set forth in Schedule 3.22 of the Disclosure Schedules, the acquisition by the Acquiror of the Company and its Subsidiaries and the consummation of the transactions contemplated in this Agreement will not materially affect in a negative way the relationship of the Company or any of its Subsidiaries with any such customer or supplier.

Section 3.23 Information Privacy and Security. The collection, use, analysis, disclosure, retention, storage and dissemination of Personally Identifiable Information by the Company and its Subsidiaries in their business as presently conducted materially complies with, and does not violate in any material respect, and as previously conducted materially complied with and did not violate in any material respect: (a) any Information Privacy and Security Laws in the states in which they operate or have operated, or (b) any privacy policies or terms of use presently applicable to the business of the Company or its Subsidiaries and to which they are bound, including those applicable to the use, storage and dissemination of Personally Identifiable Information. Except as would not reasonably be expected to have a Material Adverse Effect, all employees, contractors or other personnel who have access to (i) Personally Identifiable Information or (ii) confidential information, the disclosure of which would reasonably be expected to materially impair its business (collectively, "Protected Information") have executed and delivered the form of Confidentiality, Nondisclosure and Covenant Not to Solicit Agreement (which shall include a Confidentiality Agreement addendum) and have received copies of the Company's privacy and security policies governing all such Protected Information. To the Knowledge of the Company, neither the Company nor any of its Subsidiaries has made or suffered, with respect to its business, any unauthorized acquisition, access, use or disclosure ("Data Breach") of any Protected Information, which Data Breach(es), individually or in the aggregate, materially compromises the security or privacy of such Protected Information or otherwise acted in a manner that would trigger a notification or reporting requirement, or any civil, criminal or regulatory liability, under any Information Privacy and Security Laws. To the Knowledge of the Company, the Company and its Subsidiaries have complied, in all material respects, with any such notification or reporting requirement that is applicable to them.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES
OF THE ACQUIROR AND SUB

The Acquiror and Merger Sub hereby represent and warrant to the Company as of the date hereof as follows:

Section 4.1 Organization and Qualification.

(a) The Acquiror is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware and Merger Sub is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Each of the Acquiror and Merger Sub (i) has all necessary organizational power and

authority to own, lease and operate its properties and to carry on its business as it is now being conducted and (ii) is duly qualified as a foreign entity to do business, and is in good standing, in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its business makes such qualification necessary, except, in each case, for any such failures that would not, individually or in the aggregate, reasonably be expected to have an Acquiror Material Adverse Effect.

(b) The Acquiror has heretofore furnished to the Company a complete and correct copy of the certificate of incorporation or formation, bylaws and/or limited liability company agreement, as applicable, each as amended to date, of the Acquiror and of Merger Sub. Such organizational documents are in full force and effect.

Section 4.2 Authority. Each of the Acquiror and Merger Sub has full organizational power and authority to execute and deliver this Agreement and each of the Ancillary Agreements to which it will be a party, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance by the Acquiror and Merger Sub of this Agreement and each of the Ancillary Agreements to which it will be a party and the consummation by the Acquiror and Merger Sub of the transactions contemplated hereby and thereby have been duly and validly authorized by the Boards of Directors or Managers, as the case may be, of the Acquiror and Merger Sub and by the Acquiror as the sole stockholder of Merger Sub. No other organizational proceedings on the part of the Acquiror or Merger Sub are necessary to authorize the execution, delivery or performance of this Agreement or any Ancillary Agreement or to consummate the transactions contemplated hereby or thereby. This Agreement has been, and upon their execution each of the Ancillary Agreements to which the Acquiror or Merger Sub will be a party will have been, duly executed and delivered by the Acquiror and Merger Sub, as applicable, and, assuming due execution and delivery by each of the other parties hereto and thereto, this Agreement constitutes, and upon their execution each of the Ancillary Agreements to which the Acquiror or Merger Sub will be a party will constitute, the legal, valid and binding obligations of the Acquiror and Merger Sub, as applicable, enforceable against the Acquiror and Merger Sub, as applicable, in accordance with their respective terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general principles of equity (regardless of whether considered in a proceeding in equity or at law).

Section 4.3 No Conflict; Required Filings and Consents.

(a) The execution, delivery and performance by each of the Acquiror and Merger Sub of this Agreement and each of the Ancillary Agreements to which it will be a party, and the consummation of the transactions contemplated hereby and thereby, do not and will not:

(i) conflict with or violate the certificate of incorporation or bylaws of the Acquiror or Merger Sub;

(ii) conflict with or violate any Law applicable to the Acquiror or Merger Sub or by which any property or asset of the Acquiror or Merger Sub is bound or affected; or

(iii) conflict with, result in any breach of, constitute a default (or an event that, with notice or lapse of time or both, would become a default) under, require any consent of any Person pursuant to, or give to others any rights of termination, acceleration or cancellation of, or loss of benefits under, any Contract to which the Acquiror or Merger Sub is a party;

except, in the case of clause (iii), for any such conflicts, violations, breaches, defaults or other occurrences that would not, individually or in the aggregate, reasonably be expected to have an Acquiror Material Adverse Effect or that arise as a result of any facts relating to the Company or any of its Affiliates.

(b) Neither the Acquiror nor Merger Sub is required to file, seek or obtain any notice, authorization, approval, order, permit or consent of or with any Governmental Authority in connection with the execution, delivery and performance by the Acquiror and Merger Sub of this Agreement and each of the Ancillary Agreements to which it will be a party or the consummation of the transactions contemplated hereby or thereby or in order to prevent the termination of any right, privilege, license or qualification of the Acquiror or Merger Sub, except (i) for the filing of the Certificate of Merger with the Secretary of State of the State of Delaware, (ii) for such filings as may be required by any applicable federal or state securities or “blue sky” laws, (iii) where failure to obtain such consent, approval, authorization or action, or to make such filing or notification, would not, individually or in the aggregate, reasonably be expected to have an Acquiror Material Adverse Effect or (iv) as may be necessary as a result of any facts or circumstances relating to the Company or any of its Affiliates.

Section 4.4 No Prior Activities. Except for obligations incurred in connection with its organization and the transactions contemplated hereby, Merger Sub has neither incurred any obligation or liability nor engaged in any business or activity of any type or kind whatsoever or entered into any agreement or arrangement with any Person.

Section 4.5 Financing. The Acquiror has and will have at the Closing sufficient funds to permit the Acquiror or Merger Sub to consummate the transactions contemplated by this Agreement and the Ancillary Agreements, including the Merger, and to pay all related fees and expenses and to otherwise pay the Merger Consideration when due. Notwithstanding anything to the contrary contained herein, the Acquiror and Merger Sub acknowledge and agree that their obligations to effect the Merger are not contingent on the ability to obtain any third-party financing.

Section 4.6 Brokers. No broker, finder or investment banker is entitled to any brokerage, finder’s or other fee or commission in connection with the transactions contemplated hereby based upon arrangements made by or on behalf of the Acquiror or Merger Sub.

Section 4.7 Acquiror’s Investigation and Reliance. The Acquiror is a sophisticated purchaser and has made its own independent investigation, review and analysis regarding the Company and its Subsidiaries and the transactions contemplated hereby, which investigation, review and analysis were conducted by the Acquiror together with expert advisors, including legal counsel, that it has engaged for such purpose. The Acquiror and its

Representatives have been provided with reasonable access to the Representatives, properties, offices, plants and other facilities, books and records of the Company and its Subsidiaries and other information that they have reasonably requested in connection with their investigation of the Company and its Subsidiaries and the transactions contemplated hereby. Neither the Company nor any of its Affiliates or Representatives has made any representation or warranty, express or implied, as to the accuracy or completeness of any information concerning the Company contained herein or made available in connection with the Acquiror's investigation of the Company, except as expressly set forth in this Agreement, and, absent fraud, the Company and its Affiliates and Representatives expressly disclaim any and all liability that may be based on such information or errors therein or omissions therefrom. The Acquiror has not relied and is not relying on any statement, representation or warranty, oral or written, express or implied, made by the Company or any of its Affiliates or Representatives, except as expressly set forth in Article III. Except as expressly set forth in this Agreement, neither the Company nor any of its Affiliates or Representatives shall have any liability to the Acquiror or any of its Affiliates or Representatives resulting from the use of any information, documents or materials made available to the Acquiror, whether orally or in writing, in any confidential information memoranda, "data rooms," management presentations, due diligence discussions or in any other form in expectation of the transactions contemplated by this Agreement. Neither the Company nor any of its Affiliates or Representatives is making, directly or indirectly, any representation or warranty with respect to any estimates, projections or forecasts involving the Company and its Subsidiaries.

ARTICLE V COVENANTS

Section 5.1 Covenants Regarding Information. In order to facilitate the resolution of any claims made against or incurred by the Stockholders (as they relate to the Company and its Subsidiaries), for a period of seven years after the Closing or, if shorter, the applicable period specified in the Company's document retention policy, the Company shall (i) retain the books and records relating to the Company and its Subsidiaries relating to periods prior to the Closing and (ii) afford the Stockholder Representative reasonable access (including the right to make, at its expense, photocopies), during normal business hours, to such books and records; provided, however, that the Company shall notify the Stockholder Representative in writing at least thirty (30) days in advance of destroying any such books and records prior to the seventh anniversary of the Closing Date in order to provide the Stockholder Representative the opportunity to copy such books and records in accordance with this Section 5.1; provided, however, that any such access or furnishing of information shall be conducted under the supervision of the Company's Representatives and in such a manner as not unreasonably to interfere with the normal operations of the Company and its Subsidiaries. Notwithstanding anything to the contrary in this Agreement, neither the Company nor any of its Subsidiaries shall be required to disclose any information to the Stockholder Representative or its Representatives if such disclosure would, in the written opinion of its counsel, (i) jeopardize any attorney-client or other legal privilege or (ii) contravene any applicable Laws.

Section 5.2 Company Stockholder Approval. Upon the execution and delivery of this Agreement, the Company shall deliver, no later than 5:00 p.m. New York time, to the Acquiror, in accordance with Sections 228 and 251(c) of the DGCL and the Company's

certificate of incorporation and bylaws, a written consent from the Stockholders irrevocably adopting and approving this Agreement and the transactions contemplated hereby including the Merger, which written consent shall be sufficient to constitute the Company Stockholder Approval.

Section 5.3 Employee Benefits.

(a) The Acquiror shall provide, or cause to be provided, to the employees (the "Affected Employees") or former employees (presently entitled to benefits) of the Company and its Subsidiaries, through December 31, 2014 (the "Covenant Date"), compensation and employee benefits (including under the Employee Plans) that in the aggregate are comparable or superior to those currently provided by the Company and its Subsidiaries to their employees. For the avoidance of doubt nothing above shall prevent the Acquiror from (x) providing compensation and employee benefits to the Affected Employees after the Covenant Date that may or may not be similar as those currently provided by the Company and its Subsidiaries to the Affected Employees or (y) notifying any or all Affected Employees of changes to such compensation or benefits prior to the Covenant Date, as long as such change(s) are effective only after the Covenant Date. To the extent included as accruals in the Final Closing Statement and for accruals through the Covenant Date on the same basis as in effect immediately before the Closing Date, and to the extent such Affected Employee remains eligible to receive such amount under the applicable criteria for bonus eligibility as in effect immediately before the Closing Date, the Acquiror shall cause 2014 bonuses to each eligible Affected Employee to be paid out to such Affected Employee in the normal course according to the applicable payroll practices of the Company; provided that nothing in this clause shall require any bonus amount to be paid in excess of the sum of such accrued amounts in the Final Closing Statement and additional accruals after the Closing Date through the Covenant Date as provided herein.

(b) The Acquiror shall, or shall cause the Surviving Corporation to, honor all unused vacation, holiday, sickness and personal days accrued by the employees of the Company and its Subsidiaries for the year in which the Effective Time occurs under the policies and practices of the Company and its Subsidiaries. In the event of any change in the welfare benefits provided to any employee of the Company or any of its Subsidiaries under any plan, the Acquiror shall use its commercially reasonable efforts to, or shall use its commercially reasonable efforts to cause the Surviving Corporation to, (i) waive all limitations as to preexisting conditions, exclusions and waiting periods with respect to participation and coverage requirements applicable to the Affected Employees or former employees (presently entitled to benefits) of the Company and its Subsidiaries, and their covered dependents under such plan (except to the extent that such conditions, exclusions or waiting periods would apply under the Company's or such Subsidiary's then existing plans absent any change in such welfare coverage plan) and (ii) provide each Affected Employee and his or her covered dependents with credit for any co-payments and deductibles paid prior to any such change in coverage in satisfying any applicable deductible or out-of-pocket requirements under such new or changed plan. The Acquiror shall, or shall cause the Surviving Corporation to, provide each Affected Employee with vesting and eligibility credit and credit for purposes of level of benefits for all service with the Company and its Affiliates under each employee benefit plan, policy, program or arrangement in which such Affected Employee is eligible to participate, except to the extent that

it would result in a duplication of benefits with respect to the same period of services. Notwithstanding anything to the contrary, the Acquiror shall not be required to provide vesting credit under any equity or equity incentive plans of the Acquiror or any Affiliate of the Acquiror for any service completed with the Company or its Affiliates prior to the Closing.

(c) Nothing in this Section 5.3 or elsewhere in this Agreement shall create a Contract for employment or services or require the Acquiror or the Surviving Corporation to continue any specific employee benefit plans. No provision of this Agreement shall create any third party beneficiary rights in any Affected Employee, or any beneficiary or dependent thereof, with respect to the compensation, terms and conditions of employment and benefits that may be provided to any Affected Employee by Acquiror or under any benefit plan which Acquiror may maintain. Nothing in this Section 5.3 or elsewhere in this Agreement, express or implied, shall be deemed to be the adoption of, or an amendment to, any employee benefit plan, as that term is defined in Section 3(3) of ERISA, or otherwise to limit the right of the Acquiror or the Surviving Corporation to amend, modify or terminate any such employee benefit plan.

Section 5.4 Confidentiality Agreement. The parties hereto agree that the confidentiality agreement dated June 2, 2014, between the Acquiror and the Company (the "Confidentiality Agreement"), shall terminate in its entirety upon the Closing.

Section 5.5 Public Announcements. No party hereto shall issue any press release or make any other public statement with respect to the transactions contemplated hereby, except as and to the extent any such party shall be required by applicable Law or stock exchange regulation, in which case such party shall allow the other party reasonable time to comment on such release or announcement and the parties hereto shall use their commercially reasonable efforts to cause a mutually agreeable release or announcement to be issued.

Section 5.6 Directors' and Officers' Indemnification.

(a) The Acquiror shall cause the Surviving Corporation and its Subsidiaries to indemnify, defend and hold harmless each person who is now, or has been at any time prior to the date hereof or who becomes prior to the Closing Date, an officer or director of the Company or any of its Subsidiaries (the "D&O Indemnified Parties") against any and all losses, damages, liabilities, deficiencies, claims, interest, awards, judgments, penalties, costs and expenses (including reasonable attorneys' fees, costs and other out-of-pocket expenses incurred in investigating, preparing or defending the foregoing) arising out of or relating to any threatened or actual Action based in whole or in part on or arising out of or relating in whole or in part to the fact that such person is or was a director or officer of the Company or any of its Subsidiaries whether pertaining to any matter existing or occurring at or prior to the Closing Date and whether asserted or claimed prior to, or at or after, the Closing Date (the "D&O Indemnified Liabilities"), including all D&O Indemnified Liabilities based in whole or in part on, or arising in whole or in part out of, or relating to this Agreement or the transactions contemplated hereby, in each case to the full extent (but only to such extent) the Company or its Subsidiaries, as applicable, is permitted under the Laws of the state of its jurisdiction of incorporation to indemnify its own directors or officers (and the Acquiror shall, or shall cause the Surviving Corporation and its Subsidiaries to, pay

expenses in advance of the final disposition of any such action or proceeding to each D&O Indemnified Party to the extent permitted by the Laws of the Company or its Subsidiaries' jurisdiction of incorporation, as applicable, upon receipt from the insured party for whom expenses are paid of any undertaking to repay such amounts required under applicable Law). The parties hereto agree that all rights to indemnification hereunder, including provisions relating to advances of expenses incurred in defense of any such action or suit, existing in favor of the D&O Indemnified Parties with respect to matters occurring through the Closing Date, shall continue in full force and effect for a period of not less than six years from the Closing Date; provided, however, that all rights to indemnification in respect of any D&O Indemnified Liabilities asserted or made within such period shall continue until the disposition of such D&O Indemnified Liabilities.

(b) For a period of six years from the Closing Date, the Acquiror shall cause the Surviving Corporation and its Subsidiaries to maintain, if available, officers' and directors' liability insurance covering the persons who are presently covered by their officers' and directors' liability insurance policies with respect to actions and omissions occurring prior to the Closing Date, providing coverage not less favorable than provided by such insurance of the Company and its Subsidiaries in effect on the date hereof.

(c) The Acquiror covenants, for itself and its successors and assigns, that it and they shall not institute any Action in any court or before any administrative agency or before any other tribunal against any of the current directors of the Company and its Subsidiaries, in their capacity as such, with respect to any liabilities, actions or causes of action, judgments, claims or demands of any nature or description (consequential, compensatory, punitive or otherwise).

(d) The Surviving Corporation shall not take any action directly or indirectly to disaffirm or adversely affect the provisions of the articles of organization and bylaws, except that the parties agree that the organizational documents of the Surviving Corporation shall be as set forth pursuant to Section 2.4.

Section 5.7 Transfer Taxes. The Acquiror on the one hand and the Securityholders on the other hand shall be responsible for and shall each indemnify the other for 50% of any and all sales, use, value-added, transfer, stamp, registration, documentary, excise, real property transfer, mortgage, recordation and similar Taxes incurred in connection with the transactions contemplated by this Agreement ("Transfer Taxes"). The Acquiror and the Stockholder Representative agree to timely sign and deliver certificates or forms as may be necessary or appropriate to establish an exemption from (or otherwise reduce), or make a report with respect to, such Taxes. The Securityholders' liability for Transfer Taxes pursuant to this Section 5.7 shall be reduced by any amount of Transfer Taxes treated as Transaction Expenses.

Section 5.8 Restricted Stock Units.

(a) Within thirty (30) days following the Closing (the "Election Period") or as soon as practicable thereafter, the Acquiror shall grant to certain employees of the Company or its Subsidiaries who are employees as of immediately prior

to the Closing (each, an “Electing Employee”), time-vested restricted stock units of the Acquiror (“RSUs”) with a value of \$2,300,000 in the aggregate, in such individual amounts to each employee as the Acquiror shall determine; provided that such Electing Employee has executed and delivered to the Acquiror within the Election Period a letter agreement, in form and substance satisfactory to the Acquiror, amending his or her existing employment and severance arrangements, if any, to terminate on October 24, 2017 (if not earlier by their terms).

(b) The Acquiror shall reserve performance-based RSUs with a value of \$500,000 in the aggregate for issuance to certain employees of the Company or its Subsidiaries who are employees as of immediately prior to the Closing, in such individual amounts to such employees as the Acquiror shall allocate, based upon satisfaction, as determined by the Acquiror in its sole discretion, of the 2015 financial performance targets for the Company and its Subsidiaries which were previously delivered to the Acquiror.

Section 5.9 Post-Closing Confidentiality.

(a) The Stockholder Representative acknowledges and agrees that, for a period of two years following Closing, all Confidential Information and all physical embodiments thereof are confidential and proprietary to, and will remain the sole and exclusive property of, the Business which Acquiror shall acquire at the Closing. At all times after the date of this Agreement, Stockholder Representative will hold and will direct its Representative and Affiliates to hold such Confidential Information in confidence with the same degree of care with which it protects its own confidential information.

(b) As used in this Section 5.9, “Confidential Information” means all Trade Secrets and all other confidential and/or proprietary data and/or information relating to the Business and its operations (which does not rise to the status of a Trade Secret) which is owned or used by the Company or any of its Subsidiaries and which has value to the Business and the Company and its Subsidiaries. Such Confidential Information shall include, but not be limited to, proprietary technology, operating procedures, financial statements or other financial information, know-how, market studies and forecasts, competitive analysis, pricing policies and procedures, the substance of arrangements with customers, suppliers and others, servicing and training programs and arrangements, marketing or similar arrangements, customer or supplier lists and any other documents embodying such Confidential Information. Confidential Information shall not include any data or information that (i) is or becomes publicly available, (ii) otherwise enters the public domain not in violation of the Stockholder Representative’s confidentiality obligations hereunder, or (iii) is required by Law to be disclosed, provided that prior to such disclosure, such disclosing party uses commercially reasonable efforts to the extent practicable to provide notice to Acquiror thereof, and provides Acquiror a reasonable opportunity to contest such disclosure with the appropriate governmental or regulatory body.

(c) In the event of the breach of any provisions of this Section 5.9, Acquiror, in addition and supplemental to other rights and remedies existing in its favor, may apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive or other relief (without the posting of bond or other security) in order to enforce or prevent any violations of the provisions hereof.

Section 5.10 Tax Covenants.

(a) The Acquiror shall prepare or cause to be prepared and file or caused to be filed any Returns and schedules relating to the Company and its Subsidiaries that are due after the Closing Date. Returns for any Tax period ending on or before the Closing (other than Returns relating to the Company and its Subsidiaries filed on or prior to the Closing Date) and that portion of any Tax period through the end of the Closing shall be prepared in a manner consistent with prior Returns, except as otherwise required by applicable Law; provided, however, the Acquiror shall be permitted, at its sole discretion, to file or cause to be filed an election pursuant to Section 338(g) of the Code (and any corresponding provision of state, local or non-U.S. Tax Law) with respect to the transactions contemplated by this Agreement (the "338 Election"). The Acquiror shall deliver such Returns to the Stockholder Representative no less than twenty (20) days prior to their due date for timely filing in the case of Income Tax Returns and no less than three (3) days prior to their date for timely filing in the case of non-Income Tax Returns for review and consent by the Stockholder Representative (which consent shall not be unreasonably withheld, conditioned, or delayed). The Acquiror and the Stockholder Representative shall work in good faith to resolve any issues raised by the Stockholder Representative with respect to such Returns to the extent they relate to Tax periods (or portions thereof) ending on or before the Closing Date. In the event that the Acquiror and the Stockholder Representative cannot reach agreement with respect to any issue, such issue shall be resolved by the Independent Accounting Firm, the cost of which shall be borne by the Acquiror and the Stockholder Representative in inverse proportion as they may prevail on the merits. If the Independent Accounting Firm is unable to resolve such issue before the due date for filing the applicable Return, the Return shall be filed as originally prepared by the Acquiror (but taking into account any undisputed comments of the Stockholder Representative) and subsequently amended to reflect the determination of the Independent Accounting Firm.

(b) The Acquiror and the Stockholder Representative shall use commercially reasonable efforts to cooperate, as and to the extent reasonably requested by the other party, in connection with the preparation and filing of any Return and any audit, litigation or other proceeding with respect to Taxes. Such cooperation shall include the retention and (upon the other party's request) the provision of records and information which are reasonably relevant to any such Return, audit, litigation or other proceeding or any Tax planning and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. The Acquiror and the Stockholder Representative further agree, upon reasonable request, to use their commercially reasonable efforts to obtain any certificate or other document from any Governmental Authority or any other Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including, but not limited to, any Transfer Taxes). The Stockholder Representative agrees (i) to retain all books and records with respect to Tax matters pertinent to the Company and its Subsidiaries in its possession, and to abide by all record retention agreements entered into with any Governmental Authority and (ii) to give the Acquiror reasonable written notice prior to destroying or discarding any such books and records and, if the Acquiror so requests, the Stockholder Representative shall allow the Acquiror to take possession of such books and records.

(c) If the Company or any Subsidiary thereof receives a notice of an intention of a Tax authority to audit or conduct an examination with respect to Taxes that relate solely to a period that ends on or prior to the Closing, the Company or Subsidiary shall notify the Stockholder Representative within ten (10) days of receipt of the notice. The Stockholder Representative shall have the right, at the Stockholder Representative's expense (subject to reimbursement by any applicable Securityholders), to control any such audit or examination by any Tax authority, and any related administrative or judicial proceeding, initiate any claim for refund, contest, resolve and defend against any assessment, notice of deficiency, or other adjustment or proposed adjustment relating to any and all Taxes for any taxable period ending on or before the Closing with respect to the Company or any Subsidiary thereof. The Acquiror may participate in any such audit of the Company or any Subsidiary thereof at its own expense. Any audit or examination with respect to Taxes that relate to a period beginning on or prior to the Closing Date and ending after the Closing Date shall be controlled jointly by the Acquiror and the Stockholder Representative at the election of the Stockholder Representative, and otherwise solely by the Acquiror.

(d) The Acquiror shall not and shall not permit the Company or any Subsidiary thereof to settle, compromise or conclude a Tax audit or proceeding that the Stockholder Representative, in accordance with this Section 5.10, is entitled to control (solely or jointly), without the prior written consent of the Stockholder Representative, which consent shall not be unreasonably withheld, conditioned or delayed.

(e) To the extent it would affect the liability of the Company or any Subsidiary thereof for Tax (other than as a result of any reduction in the amount of net operating loss carry-forwards or other Tax assets that arose with respect to taxable periods (or portions thereof) ending on or before the Closing Date) with respect to a taxable period or portion thereof beginning after the Closing Date, the Stockholder Representative shall not permit the Company or any Subsidiary to settle, compromise, or conclude a Tax audit or proceeding which the Stockholder Representative controls pursuant to this Section 5.10 without the written consent of the Acquiror, which consent shall not be unreasonably withheld, conditioned or delayed.

(f) For purposes of the indemnity provisions of this Agreement, in the case of any Taxes that are imposed on a periodic basis and are payable for a Tax period that includes (but does not end on) the Closing Date, the portion of such Tax related to the portion of such Tax period ending on and including the Closing Date shall (i) in the case of any Taxes other than gross receipts, sales or use Taxes, payroll Taxes, and Taxes based upon or related to income, be deemed to be the amount of such Tax for the entire Tax period multiplied by a fraction the numerator of which is the number of days in the Tax period ending on and including the Closing Date and the denominator of which is the number of days in the entire Tax period and (ii) in the case of any gross receipts, sales or use Taxes, payroll Taxes, and Taxes based upon or related to income, be deemed equal to the amount which would be payable if the relevant Tax period ended on and included the Closing Date, provided, however, that any item determined on an annual or periodic basis (including amortization and depreciation deductions) shall be allocated to the portion of such Tax period ending on the Closing Date based on the relative number of days in such portion of the Tax period as compared to the total number of days in such Tax period.

Section 5.11 Non-Solicit.

(a) From the date hereof until the second anniversary of the Closing Date, neither New Mountain Partners, L.P. nor New Mountain Affiliated Investors, L.P. shall, directly or indirectly:

(i) solicit to employ or employ (or solicit to engage or engage as an independent contractor) any employee or independent contractor of the Company, the Surviving Corporation or any of their Subsidiaries; provided, however, that the foregoing restriction shall not prohibit any solicitation or hiring of any such employee or independent contractor, (i) pursuant to or as a result of any public advertisement or posting or other form of general solicitation that is not directed at any such employee or independent contractor, (ii) from and after three months from the date of his or her voluntary or involuntary termination of employment with the Company or any of its Subsidiaries, or (iii) through the use of a search firm or other employment agency that has not been instructed to direct its efforts toward such employee or independent contractor; and

(ii) knowingly disrupt or interfere with the business of the Company or any of its Subsidiaries with their customers or licensors who were customers or licensors at the Closing Date or within twelve (12) months prior to the Closing Date.

(b) The parties hereto acknowledge and agree that the amount of actual damages suffered by a non-breaching party in the event of a breach of this Section 5.11 may be difficult or impossible to accurately calculate and there may not be an adequate remedy at law available to the non-breaching party to fully compensate the non-breaching party in the event of such a breach. Consequently, the parties hereto agree that, in addition to any other remedy or relief to which it may be entitled, in the event of a breach or threatened breach of this Section 5.11, the non-breaching party and its successors and assigns shall be entitled to specific performance and/or injunctive or other equitable relief from a court of competent jurisdiction in order to enforce, or prevent any violations of, the provisions of this Section 5.11 (without posting a bond or other security), and neither the breaching party nor any of its Affiliates will oppose the granting of any such relief on the grounds that the non-breaching party has an adequate remedy at Law, has not proven actual damages, and/or should be required to post a bond or other security.

(c) The parties hereto acknowledge and agree that such portions of Article I and Article VIII as are applicable to this Section 5.11 shall be incorporated as binding provisions on New Mountain Partners, L.P. and New Mountain Affiliated Investors, L.P. for purposes of this Section 5.11.

ARTICLE VI
CLOSING DELIVERABLES

Section 6.1 Closing Deliverables of Acquiror and Merger Sub. At the Closing, Acquiror and Merger Sub shall have delivered or caused to be delivered to the Company the following:

(a) A certificate, signed by a duly authorized officer of each of Acquiror and Merger Sub on their behalf, certifying that: (A)(i) the Fundamental Representations of the Acquiror and Merger Sub shall be true and correct in all respects both when made and as of the Closing Date, or in the case of Fundamental Representations that are made as of a specified date, such Fundamental Representations shall be true and correct as of such specified date, and (ii) all other representations and warranties of the Acquiror and Merger Sub contained in Article IV shall be true and correct both when made and as of the Closing Date, or in the case of such representations and warranties that are made as of a specified date, such representations and warranties shall be true and correct as of such specified date, except where the failure to be so true and correct (without giving effect to any limitation or qualification as to “materiality” (including the word “material”) or “Material Adverse Effect” set forth therein) would not, individually or in the aggregate, reasonably be expected to have an Acquiror Material Adverse Effect; and (B) the Acquiror and Merger Sub shall have performed all obligations and agreements and complied with all covenants and conditions required by this Agreement to be performed or complied with by them prior to or at the Closing.

(b) An executed counterpart of each of the Ancillary Agreements (as applicable), signed by each party other than the Company.

Section 6.2 Closing Deliverables of the Company. At the Closing, the Company shall have delivered or caused to be delivered to Acquiror and Merger Sub the following:

(a) A certificate, signed by the Chief Executive Officer or Chief Financial Officer of the Company on its behalf, certifying that (A)(i) the Fundamental Representations of the Company shall be true and correct in all respects both when made and as of the Closing Date, or in the case of such Fundamental Representations that are made as of a specified date, such Fundamental Representations shall be true and correct in all respects as of such specified date and (ii) the other representations and warranties of the Company set forth in Article III shall be true and correct both when made and as of the Closing Date, or in the case of such representations and warranties that are made as of a specified date, such representations and warranties shall be true and correct as of such specified date, except where the failure to be so true and correct (without giving effect to any limitation or qualification as to “materiality” (including the word “material”) or “Material Adverse Effect” set forth therein, except as set forth in Section 3.7(b) or for use of “Material Contract”) would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; (B) the Company shall have performed all obligations and agreements and complied with all covenants and conditions required by this Agreement to be performed or complied with by it prior to or at the Closing; and (C) there shall not have occurred a Material Adverse Effect since the Balance Sheet that is pending or continuing and there are no facts, events or circumstances that are reasonably likely to give rise to a Material Adverse Effect.

(b) A certificate, in form and substance reasonably satisfactory to the Acquiror, signed by the Secretary of the Company, attaching (i) the Certificate of Incorporation of the Company certified as of a recent date by the Secretary of State of the State of Delaware in effect as of the Closing, (ii) the bylaws of the Company in effect as of the Closing, (iii) copies of the resolutions of the board of directors of the Company authorizing and approving this Agreement and the transactions contemplated herein, and (iv) a certification as to the incumbency of the officers executing on behalf of the Company this Agreement and the Ancillary Agreements.

(c) An executed counterpart of each of the Ancillary Agreements (as applicable), signed by each party thereto, other than the Acquiror or Merger Sub.

(d) A certificate pursuant to Treasury Regulations section 1.1445-2(c)(3) stating that the Company is not nor has it been a U.S. real property holding corporation (as defined in section 897(c)(2) of the Code) during the applicable period specified in section 897(c) of the Code.

(e) A copy of the payoff letter relating to the Notes and satisfaction in full of the Notes (the "Payoff Letter"), in a form reasonably satisfactory to the Acquiror.

(f) Evidence of the termination of Contracts listed on Schedule 6.2(g) of the Disclosure Schedules (the termination agreements relating to such Contracts, collectively, the "Termination Agreements"), each such Termination Agreement to be in a form reasonably satisfactory to the Acquiror.

(g) A copy of the Company Stockholder Approval which shall be in full force and effect, delivered in accordance with Section 5.2.

(h) A copy of the Certificate of Merger duly executed by the Company.

ARTICLE VII INDEMNIFICATION

Section 7.1 Survival of Representations, Warranties and Covenants.

(a) Absent fraud, the representations and warranties of the Company, the Acquiror and Merger Sub contained in this Agreement (or any certificate delivered herewith) shall survive the Closing until December 17, 2015 except that (i) the representations and warranties set forth in Section 3.1 (Organization and Qualification), Section 3.2 (Authority), Section 3.4 (Capitalization), Section 3.18 (Brokers), Section 4.1 (Organization and Qualification), Section 4.2 (Authority) and Section 4.6 (Brokers) (collectively, the "Fundamental Representations") shall survive the Closing indefinitely, and (ii) the representations and warranties set forth in Section 3.15 (Taxes) shall survive until 30 days following the expiration of the applicable statute of limitations for such underlying claims; provided, however, that the covenants and agreements of the parties shall survive until the date such covenant or agreement is fully performed.

(b) The survival periods set forth in Section 7.1(a) are in lieu of, and the parties expressly waive, any otherwise applicable statute of limitations, whether arising at law or in equity, including in accordance with the provisions of Section 8106 of the DGCL. Any claim for breach of representation or warranty hereunder shall be deemed to have accrued as of the Closing. No claim for breach of any representation, warranty, covenant or agreement may be brought after expiration of the survival periods set forth in Section 7.1(a), provided, however, that the expiration of any such representation, warranty, covenant or agreement for indemnification shall not affect the rights of any party in respect of any such indemnity claim therefor as to which notice thereof has been duly given pursuant to this Article VII prior to the expiration of the applicable survival period provided in this Section 7.1.

Section 7.2 Indemnification by the Securityholders. Subject to Section 7.5, the Securityholders, severally but not jointly, shall save, defend, indemnify and hold harmless the Acquiror and its Affiliates, officers, directors, employees, agents, successors and assigns (collectively, the "Acquiror Indemnified Parties") from and against any and all losses, damages, liabilities, deficiencies, claims, interest, awards, judgments, penalties, Taxes, costs and expenses (including reasonable attorneys' fees, costs and other out-of-pocket expenses incurred in investigating, preparing or defending the foregoing), but (unless arising under a Third Party Claim) not including any punitive, incidental, consequential, special or indirect damages, including business interruption, diminution of value, loss of future revenue, profits or income, or loss of business reputation or opportunity relating to the breach or alleged breach of this Agreement (hereinafter collectively, "Losses") to the extent resulting from:

(a) any breach of any representation or warranty made by the Company contained in this Agreement (or any certificate delivered herewith);

(b) any breach of any covenant or agreement by the Company contained in this Agreement (or any certificate delivered herewith);

(c) except to the extent constituting an Excluded Tax and subject to Section 7.5, any liability for (i) all Taxes (or non-payment thereof) of the Company or any of its Subsidiaries for Tax periods (or portions thereof) ending on or before the Closing or (ii) all Income Taxes of any member of an affiliated, consolidated, combined or unitary group of which the Company or any of its Subsidiaries (or any predecessor of such person) is or was a member on or prior to the Closing, including pursuant to Treasury Regulations Section 1.1502-6; and

(d) any claim for appraisal of Dissenting Shares for an amount in excess of the right to receive a portion of the Merger Consideration pursuant to the terms and conditions of this Agreement.

Section 7.3 Indemnification by the Acquiror. Subject to Section 7.5, the Acquiror shall save, defend, indemnify and hold harmless the Securityholders and their respective Affiliates, officers, directors, employees, agents, successors and assigns (collectively, the “Stockholder Indemnified Parties”) from and against any and all Losses to the extent resulting from:

(a) any breach of any representation or warranty made by the Acquiror or Merger Sub contained in this Agreement (or any certificate delivered herewith); and

(b) any breach of any covenant or agreement by the Acquiror or Merger Sub contained in this Agreement (or any certificate delivered herewith).

Section 7.4 Procedures (a) In order for an Acquiror Indemnified Party or Stockholder Indemnified Party (the “Indemnified Party”) to be entitled to any indemnification provided for under this Agreement as a result of a Loss or a claim or demand made by any Person against the Indemnified Party (a “Third Party Claim”), such Indemnified Party shall deliver notice thereof to the Stockholder Representative, on behalf of the Securityholders, or to the Acquiror, as applicable (the “Indemnifying Party”), promptly after receipt by such Indemnified Party of written notice of the Third Party Claim, describing in reasonable detail the facts giving rise to any claim for indemnification hereunder, the amount or method of computation of the amount of such claim (if known) and such other information with respect thereto as the Indemnifying Party may reasonably request (a “Notice of Claim”). The failure to provide such Notice of Claim, however, shall not release the Indemnifying Party from any of its obligations under this Article VII except to the extent that the Indemnifying Party is adversely prejudiced by such failure.

(b) The Indemnifying Party shall have the right, upon written notice to the Indemnified Party within 30 days of receipt of such Notice of Claim from the Indemnified Party of the commencement of such Third Party Claim, to assume the defense thereof at the expense of the Indemnifying Party with counsel selected by the Indemnifying Party and reasonably satisfactory to the Indemnified Party. If the Indemnifying Party assumes the defense of such Third Party Claim, the Indemnified Party shall have the right to employ separate counsel and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of the Indemnified Party; provided, that if (i) in the reasonable opinion of counsel for the Indemnified Party, there is a conflict of interest between the Indemnified Party and the Indemnifying Party, (ii) if the Third Party Claim would reasonably be likely to be materially detrimental to the Indemnified Party’s (or its Affiliates’) customer relations, or (iii) if the Third Party Claim involves criminal allegations, the Indemnifying Party shall be responsible for the reasonable fees and expenses of one counsel to such Indemnified Party in connection with such defense. If the Indemnifying Party assumes the defense of any Third Party Claim, the Indemnified Party shall cooperate with the Indemnifying Party in such defense and make available to the Indemnifying Party all witnesses, pertinent records, materials and information in the Indemnified Party’s possession or under the Indemnified Party’s control relating thereto as is reasonably required by the Indemnifying Party. If the Indemnifying Party assumes the defense of any Third Party Claim, the Indemnifying Party shall not agree to any settlement, compromise or discharge of such Third Party Claim without the consent of the Indemnified Party (which consent shall not be unreasonably withheld, conditioned or delayed), unless such settlement, compromise or discharge requires only the payment of monetary damages which are indemnified hereunder and provides a full release of the Indemnified Party from liability. Whether or not the

Indemnifying Party assumes the defense of a Third Party Claim, the Indemnified Party shall not admit any liability with respect to, or settle, compromise or discharge, or offer to settle, compromise or discharge, such Third Party Claim without the Indemnifying Party's prior written consent (which shall not be unreasonably withheld, conditioned or delayed).

(c) In the event any Indemnified Party should have a claim against any Indemnifying Party hereunder that does not involve a Third Party Claim being asserted against or sought to be collected from such Indemnified Party, the Indemnified Party shall deliver notice of such claim within forty-five (45) days following actual knowledge by the Indemnified Party of the existence of such claim and describing in reasonable detail the facts (to the extent then known) giving rise to any claim for indemnification hereunder, the amount or method of computation of the amount of such claim (if known) and such other information with respect thereto as the Indemnifying Party may reasonably request (a "Direct Claim Notice"). The failure to provide such Direct Claim Notice, however, shall not release the Indemnifying Party from any of its obligations under this Article VII except to the extent that the Indemnifying Party is adversely prejudiced by such failure. The Indemnified Party shall reasonably cooperate and assist the Indemnifying Party in determining the validity of any claim for indemnity by the Indemnified Party and in otherwise resolving such matters. Such assistance and cooperation shall include providing reasonable access to and copies of information, records and documents relating to such matters, furnishing employees to assist in the investigation, defense and resolution of such matters and providing legal and business assistance with respect to such matters. For the avoidance of doubt, the Indemnified Party shall not be entitled to commence any Action against the Indemnifying Party for indemnification pursuant to this Section 7.4(c) unless the notice and procedural provisions set forth herein shall have been satisfied prior thereto.

(d) If the Indemnifying Party disputes such claim of indemnification, it shall use commercially reasonable efforts to notify the Indemnified Party thereof within sixty (60) days following receipt of the Notice of Claim or Direct Claim Notice, as the case may be. If the dispute has not been resolved within thirty (30) days after the parties first attempt such resolution, either party may pursue its rights and remedies in accordance with this Agreement. In no event shall any claim for indemnification be required to be paid by an Indemnifying Party unless and until the parties mutually agree as to the amount of such claim or receipt by the Indemnifying Party of a final, non-appealable judgment from a court of competent jurisdiction, in which case the Indemnifying Party and the Indemnified Party shall instruct the Escrow Agent to release any applicable amounts from the Escrow Fund.

Section 7.5 Limits on Indemnification (a) Notwithstanding anything to the contrary contained in this Agreement:

(i) the maximum aggregate amount of indemnifiable Losses that may be recovered from the Securityholders or the Acquiror, as applicable, pursuant to Section 7.2 or Section 7.3, as applicable, shall be equal to the Escrow Amount (the "Cap"); provided, however, that the maximum aggregate amount of indemnifiable Losses that may be recovered from the Securityholders or the Acquiror, as applicable, with respect to (x) breaches of Fundamental Representations and representations and warranties set forth in Section 3.15 (Taxes), (y) any Tax indemnification obligation under Section 7.2(c) and (z) any indemnification obligation under Sections 7.2(b) and 7.2(d) shall be equal to the Purchase Price, subject, in each case, to Section 7.5(a)(v);

(ii) neither the Securityholders nor the Acquiror, as applicable, shall be liable to any Indemnified Party for any claim for indemnification pursuant to Section 7.2(a) or Section 7.3(a), as applicable, unless and until the aggregate amount of indemnifiable Losses that may be recovered from the Securityholders or the Acquiror, as applicable, equals or exceeds \$250,000 (the “Basket Amount”), in which case the Securityholders or the Acquiror, as applicable, shall be liable only for the Losses in excess of the Basket Amount; provided, however, that the Basket Amount shall not apply to indemnifiable Losses resulting from breaches of Fundamental Representations and representations and warranties set forth in Section 3.15 (Taxes);

(iii) the Securityholders shall not be obligated to indemnify any Acquiror Indemnified Party with respect to any Loss to the extent that a specific accrual or reserve for the amount of such identified Loss was reflected on the Interim Financial Statements, the Financial Statements or the notes thereto;

(iv) the Securityholders shall not be obligated to indemnify any Acquiror Indemnified Party with respect to any Loss to the extent that the Acquiror received a benefit from the reflection of such matter in the calculation of the adjustment of the Merger Consideration, if any, as finally determined pursuant to Section 2.11; and

(v) the liability of each Securityholder with respect to any Losses hereunder shall be limited to such Person’s pro rata portion of such Losses (based upon the portion of the Merger Consideration received by such Securityholder), including in the event of fraud, and in no event shall any Securityholder be liable for any Losses, including in the event of fraud, in excess of the portion of the Merger Consideration actually received by such Person.

(b) Without limitation of the provisions of Section 7.5(e), the amount of any and all Losses under this Article VII shall be determined net of (i) any Tax benefit actually realized by the applicable Indemnified Party or its Affiliates (including benefits related to the utilization of any available net operating losses or other Tax attributes) arising in connection with the accrual, incurrence or payment of any such Losses in the year in which incurred or any prior years (ii) any insurance or other recoveries as and when paid to the Indemnified Party or its Affiliates in connection with the facts giving rise to the right of indemnification, net of any costs of seeking recovery or any increases in premium associated therewith.

(c) The parties hereto agree to reasonably cooperate with each other in connection with the defense, negotiation or settlement of any such legal proceeding, claim or demand. Such cooperation shall include the retention and the provision of records and information which is reasonably relevant to such Third Party Claim, and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. Without limiting the generality of the foregoing, the Indemnified Party shall use commercially reasonable efforts to seek full recovery under all insurance policies covering any Loss to the same extent as it would if such Loss were not subject to indemnification hereunder.

(d) For purposes of calculating Losses under this Article VII, any inaccuracy in or breach of any representation or warranty shall be determined without regard to any materiality, Material Adverse Effect or other similar qualification contained in or otherwise applicable to such representation or warranty.

(e) Notwithstanding anything to the contrary contained in this Agreement, the calculation of the amount of Losses resulting from (i) a breach of either (A) a representation or warranty contained in Section 3.15 or (B) a covenant contained in Section 5.10 or (ii) any liability for Taxes pursuant to Section 7.2(c), shall take into account and shall be offset by any Tax assets (including, without limitation, net operating loss carryforwards) available to the Company or any of its Subsidiaries to offset the specific Tax giving rise to such Loss as of the end of the Closing Date; provided, however, the effects of any (A) voluntary action or (B) failure to take any action required to be taken by Law or this Agreement by the Acquiror or any of its Affiliates after Closing, shall be disregarded for purposes of calculating the Tax assets available to the Company or any of its Subsidiaries as of the end of the Closing Date. For the avoidance of doubt, no direct or indirect use of such Tax assets in taxable periods (or portions thereof) beginning after the Closing by the Acquiror or any of its Affiliates (including, following the Closing, the Surviving Corporation and its Subsidiaries) shall be deemed to limit the Tax assets available to the Company and its Subsidiaries for purposes of the preceding sentence.

Section 7.6 Assignment of Claims. If any Acquiror Indemnified Party receives any payment from the Securityholders in respect of any Losses pursuant to Section 7.2 and the Acquiror Indemnified Party could have recovered all or a part of such Losses from a third party (a "Potential Contributor") based on the underlying claim asserted against the Securityholders, the Acquiror Indemnified Party shall assign, on a non-recourse basis and without any representation or warranty, such of its rights to proceed against the Potential Contributor as are necessary to permit the Stockholder Representative, on behalf of the Securityholders, to recover from the Potential Contributor the amount of such payment. If any such assignment would afford the Potential Contributor any defense to the payment of the same, such assignment shall not take place and the Acquiror Indemnified Party will, at the Stockholder Representative's direction and expense, take all reasonable actions to seek to recover such claim from such Potential Contributor. Any payment received in respect of such claim against the Potential Contributor (whether by the Stockholder Representative or the relevant Acquiror Indemnified Party as provided in the immediately preceding sentence) shall be distributed, (a) first, to the Acquiror Indemnified Party in the amount of any deductible or similar amount required to be paid by the Acquiror Indemnified Party prior to the Securityholders being required to make any payment to the Acquiror Indemnified Party plus, in the case of any claim by an Acquiror Indemnified Party as provided in the immediately preceding sentence, the costs and expenses incurred in investigating, prosecuting, defending or otherwise addressing such claim, (b) second, to the Securityholders in an amount equal to the aggregate payments made by the Securityholders to the Acquiror Indemnified Party in respect of such claim, plus the costs and expenses incurred in investigating, prosecuting, defending or otherwise addressing such claim and (c) the balance, if any, to the Acquiror Indemnified Party.

Section 7.7 Escrow Fund (a) Except in the case of (i) fraud, (ii) breaches of Fundamental Representations and representations and warranties set forth in Section 3.15

(Taxes), (iii) any Tax indemnification obligation under Section 7.2(c) or (iv) Losses arising under Sections 7.2(b) or 7.2(d), the Acquiror hereby agrees that it shall seek a remedy solely from the Escrow Fund with respect to any indemnification claim asserted hereunder and shall not seek to recover any Losses directly from the Securityholders.

(b) Following December 17, 2015 and upon final resolution of all indemnification obligations (including open claims) and all other liabilities and obligations of the Securityholders and full reimbursement of all amounts of the Stockholder Representative as provided in Section 2.13(b), the Stockholder Representative shall cause the Escrow Agent to distribute any remaining portion, if any, of the Stockholder Representative Expense Holdback Amount and the Escrow Amount to the Securityholders (i) in respect of amounts owed in respect of the Notes and (ii) to the extent any amounts remain after payments are made in respect of the Notes, any amounts due pursuant to Section 2.6(a).

Section 7.8 Exclusivity and Nature of Payment. Except as specifically set forth in this Agreement, effective as of the Closing, the Acquiror, on behalf of itself and the other Acquiror Indemnified Parties, waives any rights and claims any Acquiror Indemnified Party may have against the Securityholders, regardless of the Law or legal theory under which such liability or obligation may be sought to be imposed, whether at law, in equity, Contract, tort or otherwise, relating to the Company and its Subsidiaries and/or the transactions contemplated hereby. The rights and claims waived by the Acquiror, on behalf of itself and the other Acquiror Indemnified Parties, include, without limitation, to the fullest extent permitted under applicable Law, claims for contribution or other rights of recovery arising out of or relating to any Law, claims for breach of Contract, for breach (negligent or otherwise) of representation or warranty, and claims for breach of duty. After the Closing, and other than in the case of (i) fraud and (ii) injunctive or equitable relief, this Article VII will provide the exclusive remedy against the Company and/or the Securityholders and any other Person for any breach of any representation, warranty, covenant or other claim arising out of or relating to this Agreement and/or the transactions contemplated hereby. Any indemnity payment made under this Agreement shall be treated as an adjustment to the Merger Consideration for all Tax purposes to the extent permitted by applicable Law.

ARTICLE VIII GENERAL PROVISIONS

Section 8.1 Fees and Expenses. Except as otherwise provided herein, all fees and expenses incurred in connection with or related to this Agreement and the Ancillary Agreements and the transactions contemplated hereby and thereby shall be paid by the party incurring such fees or expenses.

Section 8.2 Amendment and Modification. This Agreement may not be amended, modified or supplemented in any manner, whether by course of conduct or otherwise, except by an instrument in writing specifically designated as an amendment hereto, signed on behalf of each of the parties at the time of the amendment.

Section 8.3 Extension; Waiver. Any agreement on the part of a party to any extension for the performance of any of the obligations or other acts of the parties shall be valid

only if set forth in a written instrument executed and delivered by a duly authorized officer on behalf of such party. Any agreement on the part of a party to any such waiver shall be valid only if set forth in a written instrument executed and delivered by a duly authorized officer on behalf of such party. No failure or delay of any party in exercising any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such right or power, or any course of conduct, preclude any other or further exercise thereof or the exercise of any other right or power.

Section 8.4 Notices. All notices and other communications hereunder shall be in writing and shall be deemed duly given (a) on the date of delivery if delivered personally, or if by e-mail, upon written confirmation of receipt by e-mail or otherwise, (b) on the first Business Day following the date of dispatch if delivered utilizing a next-day service by a recognized next-day courier or (c) on the earlier of confirmed receipt or the fifth Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered to the addresses set forth below, or pursuant to such other instructions as may be designated in writing by the party to receive such notice:

- (i) if to the Stockholder Representative, to:

New Mountain Partners, L.P.
787 Seventh Avenue, 49th Floor
New York, NY 10019
Attention: Vignesh Aier
E-mail: vaier@newmountaincapital.com

with copies (which shall not constitute notice) to:

Gibson, Dunn & Crutcher LLP
200 Park Avenue
New York, NY 10166
Attention: Rashida K. La Lande
E-mail: rlalande@gibsondunn.com

- (ii) if to Acquiror, Merger Sub or the Surviving Corporation, to:

ExlServiceHoldings, Inc.
280 Park Avenue, 38th Floor
New York, NY 10022
Attention: Nancy Saltzman, Esq.
E-mail: nancy.saltzman@exlservice.com

with a copy (which shall not constitute notice) to:

Pepper Hamilton LLP
The New York Times Building, 37th Floor
620 Eighth Avenue
New York, NY 10018-1405
Attention: Valérie Demont, Esq.
E-mail: demontv@pepperlaw.com

Section 8.5 Interpretation. When a reference is made in this Agreement to a Section, Article, Exhibit or Schedule, such reference shall be to a Section, Article, Exhibit or Schedule of this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement or in any Exhibit or Schedule are for convenience of reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. All words used in this Agreement will be construed to be of such gender or number as the circumstances require. Any capitalized terms used in any Exhibit or Schedule but not otherwise defined therein shall have the meaning as defined in this Agreement. All Exhibits and Schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth herein. The word “including” and words of similar import when used in this Agreement will mean “including, without limitation,” unless otherwise specified. The words “hereof,” “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to the Agreement as a whole and not to any particular provision in this Agreement. The term “or” is not exclusive. The word “will” shall be construed to have the same meaning and effect as the word “shall.” References to days mean calendar days unless otherwise specified.

Section 8.6 Entire Agreement. This Agreement (including the Exhibits, Disclosure Schedules and any other Schedules hereto) and the Ancillary Agreements constitute the entire agreement, and supersede all prior written agreements, arrangements, communications and understandings and all prior and contemporaneous oral agreements, arrangements, communications and understandings among the parties with respect to the subject matter hereof and thereof. Neither this Agreement nor any Ancillary Agreement shall be deemed to contain or imply any restriction, covenant, representation, warranty, agreement or undertaking of any party with respect to the transactions contemplated hereby or thereby other than those expressly set forth herein or therein or in any document required to be delivered hereunder or thereunder and none shall be deemed to exist or be inferred with respect to the subject matter hereof. Notwithstanding any oral agreement or course of conduct of the parties or their Representatives to the contrary, no party to this Agreement shall be under any legal obligation to enter into or complete the transactions contemplated hereby unless and until this Agreement shall have been executed and delivered by each of the parties.

Section 8.7 Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto and their respective successors and permitted assigns, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement, except (a) with respect to the provisions of Section 5.6, Section 5.8, Article VII and Section 8.19, which shall inure to the benefit of the Persons benefiting therefrom who are

intended to be third-party beneficiaries thereof, and (b) at the Effective Time, the right of the Securityholders, which shall be enforceable only by the Stockholder Representative, to receive the payments contemplated by the applicable provisions of Article II, in each case, at the Effective Time in accordance with the terms of this Agreement.

Section 8.8 Governing Law. This Agreement and all disputes or controversies arising out of or relating to this Agreement or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal laws of the State of Delaware, without regard to the laws of any other jurisdiction that might be applied because of the conflicts of laws principles of the State of Delaware.

Section 8.9 Submission to Jurisdiction. Each of the parties irrevocably agrees that any legal action or proceeding arising out of or relating to this Agreement brought by any other party or its successors or assigns shall be brought and determined in any Delaware state or federal court, and each of the parties hereby irrevocably submits to the exclusive jurisdiction of the aforesaid courts for itself and with respect to its property, generally and unconditionally, with regard to any such action or proceeding arising out of or relating to this Agreement and the transactions contemplated hereby. Each of the parties agrees not to commence any action, suit or proceeding relating thereto except in the courts described above in Delaware, other than actions in any court of competent jurisdiction to enforce any judgment, decree or award rendered by any such court in Delaware as described herein. Each of the parties further agrees that notice as provided herein shall constitute sufficient service of process and the parties further waive any argument that such service is insufficient. Each of the parties hereby irrevocably and unconditionally waives, and agrees not to assert, by way of motion or as a defense, counterclaim or otherwise, in any action or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby, (a) any claim that it is not personally subject to the jurisdiction of the courts in Delaware as described herein for any reason, (b) that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise) and (c) that (i) the suit, action or proceeding in any such court is brought in an inconvenient forum, (ii) the venue of such suit, action or proceeding is improper or (iii) this Agreement, or the subject matter hereof, may not be enforced in or by such courts.

Section 8.10 Disclosure Generally. Notwithstanding anything to the contrary contained in the Disclosure Schedules or in this Agreement, the information and disclosures contained in any Disclosure Schedule shall be deemed to be disclosed and incorporated by reference in any other Disclosure Schedule as though fully set forth in such Disclosure Schedule for which applicability of such information and disclosure is reasonably apparent on its face. The fact that any item of information is disclosed in any Disclosure Schedule shall not be construed to mean that such information is required to be disclosed by this Agreement. Such information and the dollar thresholds set forth herein shall not be used as a basis for interpreting the terms “material” or “Material Adverse Effect” or other similar terms in this Agreement.

Section 8.11 Personal Liability. This Agreement shall not create or be deemed to create or permit any personal liability or obligation on the part of any direct or indirect stockholder of the Company or the Acquiror or any officer, director, employee, Representative or investor of any party hereto.

Section 8.12 Assignment; Successors. Neither this Agreement nor any of the rights, interests or obligations under this Agreement may be assigned or delegated, in whole or in part, by operation of law or otherwise, by any party without the prior written consent of the Acquiror (in the case of an assignment by the Company) or the Company (in the case of an assignment by the Acquiror or Merger Sub), and any such assignment without such prior written consent shall be null and void; provided, however, that no assignment shall limit the assignor's obligations hereunder; provided, further, that the Acquiror may assign any of its rights, interests or obligations to one of its wholly-owned Subsidiaries or to any of its lenders; provided, further, that no such assignment shall relieve the Acquiror of any of its obligations hereunder. Subject to the preceding sentence, this Agreement will be binding upon and inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

Section 8.13 Enforcement. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. Accordingly, each of the parties shall be entitled to specific performance of the terms hereof, including an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any Delaware state or federal court, this being in addition to any other remedy to which such party is entitled at law or in equity. Each of the parties hereby further waives (a) any defense in any action for specific performance that a remedy at law would be adequate and (b) any requirement under any law to post security as a prerequisite to obtaining equitable relief.

Section 8.14 Currency. All references to "dollars" or "\$" or "US\$" in this Agreement or any Ancillary Agreement refer to United States dollars, which is the currency used for all purposes in this Agreement and any Ancillary Agreement.

Section 8.15 Severability. Whenever possible, each provision or portion of any provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable Law, but if any provision or portion of any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable Law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or portion of any provision in such jurisdiction, and this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision or portion of any provision had never been contained herein.

Section 8.16 Waiver of Jury Trial. EACH OF THE PARTIES TO THIS AGREEMENT HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 8.17 Counterparts; Facsimile or .pdf Signature. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties. This Agreement may be executed by facsimile or .pdf signature and a facsimile or .pdf signature shall constitute an original for all purposes.

Section 8.18 Time of Essence. Time is of the essence with regard to all dates and time periods set forth or referred to in this Agreement.

Section 8.19 Legal Representation.

(a) The Acquiror, on behalf of itself and its Affiliates (including, after the Closing, the Surviving Corporation), acknowledges and agrees that Gibson, Dunn & Crutcher LLP (“Gibson Dunn”) has acted as counsel for the Stockholders, the Stockholder Representative and for the Company in connection with this Agreement and the transactions contemplated hereby (the “Acquisition Engagement”), and in connection with this Agreement and the transactions contemplated hereby, Gibson Dunn has not acted as counsel for any other Person, including the Acquiror.

(b) Only the Stockholders, the Stockholder Representative, the Company and their respective Affiliates shall be considered clients of Gibson Dunn in the Acquisition Engagement. The Acquiror, on behalf of itself and its Affiliates (including, after the Closing, the Surviving Corporation), acknowledges and agrees that all confidential communications between the Stockholders, the Stockholder Representative, the Company and their respective Affiliates, on the one hand, and Gibson Dunn, on the other hand, in the course of the Acquisition Engagement, and any attendant attorney-client privilege, attorney work product protection, and expectation of client confidentiality applicable thereto, shall be deemed to belong solely to the Stockholders and their respective Affiliates (other than the Company) and not the Company, and shall not pass to or be claimed, held or used by the Acquiror or the Company (or, after the Closing, the Surviving Corporation) upon or after the Closing. Accordingly, the Acquiror shall not have access to any such communications, or to the files of Gibson Dunn relating to the Acquisition Engagement, whether or not the Closing occurs. Without limiting the generality of the foregoing, upon and after the Closing, (i) to the extent that files of Gibson Dunn in respect of the Acquisition Engagement constitute property of the client, only the Stockholders and their respective Affiliates shall hold such property rights and (ii) Gibson Dunn shall have no duty whatsoever to reveal or disclose any such attorney-client communications or files to the Company (or, after the Closing, the Surviving Corporation) or the Acquiror by reason of any attorney-client relationship between Gibson Dunn and the Company or otherwise; provided, however, that notwithstanding the foregoing, Gibson Dunn shall not disclose any such attorney-client communications or files to any third parties (other than representatives, accountants and advisors of the Stockholders and their respective Affiliates; provided, that such representatives, accounts and advisors are instructed to maintain the confidence of such attorney-client communications). The Acquiror, on behalf of itself and its Affiliates (including, after the Closing, the Surviving Corporation), irrevocably waives any right it may have to discover or obtain information or documentation relating to the Acquisition Engagement, to the extent that such information or documentation was subject to an attorney-client privilege, attorney work product protection or other expectation of confidentiality owed to the Stockholders and/or their respective Affiliates. If and to the extent that, at any time subsequent to Closing, the Acquiror or any of its Affiliates (including, after the Closing, the Surviving Corporation) shall have the right

to assert or waive any attorney-client privilege with respect to any communication between the Company or its Affiliates and any Person representing them that occurred at any time prior to the Closing, the Acquiror, on behalf of itself and its Affiliates (including, after the Closing, the Surviving Corporation), shall be entitled to waive such privilege only with the prior written consent of the Stockholder Representative (such consent not to be unreasonably withheld).

(c) The Acquiror, on behalf of itself and its Affiliates (including, after the Closing, the Surviving Corporation), acknowledges and agrees that Gibson Dunn has acted as counsel for the Stockholders, the Stockholder Representative, the Company and their respective Affiliates and that the Stockholders reasonably anticipate that Gibson Dunn will continue to represent them and/or their respective Affiliates in future matters. Accordingly, the Acquiror, on behalf of itself and its Affiliates (including, after the Closing, the Surviving Corporation), expressly (i) consents to Gibson Dunn's representation of the Stockholders and/or their respective Affiliates and/or any of their respective agents (if any of the foregoing Persons so desire) in any matter, including, without limitation, any post-Closing matter in which the interests of the Acquiror and the Surviving Corporation, on the one hand, and the Stockholders or any of their respective Affiliates, on the other hand, are adverse, including any matter relating to the transactions contemplated by this Agreement, and whether or not such matter is one in which Gibson Dunn may have previously advised the Stockholders, the Company or their respective Affiliates and (ii) consents to the disclosure by Gibson Dunn to the Stockholders or their respective Affiliates of any information learned by Gibson Dunn in the course of its representation of the Stockholders, the Company or their respective Affiliates, whether or not such information is subject to attorney-client privilege, attorney work product protection or Gibson Dunn's duty of confidentiality.

(d) The Acquiror, on behalf of itself and its Affiliates (including, after the Closing, the Surviving Corporation), further covenants and agrees that each shall not assert any claim against Gibson Dunn in respect of legal services provided to the Company or its Affiliates by Gibson Dunn in connection with this Agreement or the transactions contemplated hereby.

(e) From and after the Closing, the Surviving Corporation shall cease to have any attorney-client relationship with Gibson Dunn, unless and to the extent Gibson Dunn is expressly engaged in writing by the Surviving Corporation to represent the Surviving Corporation after the Closing and either (i) such engagement involves no conflict of interest with respect to the Stockholders and/or any of their respective Affiliates or (ii) the Stockholders and/or any such Affiliate, as applicable, consent in writing to such engagement. Any such representation of the Surviving Corporation by Gibson Dunn after the Closing shall not affect the foregoing provisions hereof. Furthermore, Gibson Dunn, in its sole discretion, shall be permitted to withdraw from representing the Surviving Corporation in order to represent, or continue so representing, the Stockholders.

Section 8.20 No Presumption Against Drafting Party. Each of the Acquiror, Merger Sub and the Company acknowledges that each party to this Agreement has been represented by legal counsel in connection with this Agreement and the transactions contemplated by this Agreement. Accordingly, any rule of law or any legal decision that would require interpretation of any claimed ambiguities in this Agreement against the drafting party has no application and is expressly waived.

Section 8.21 Further Assurances. Each of the parties shall use commercially reasonable efforts to take, or cause to be taken, all appropriate action to do, or cause to be done, all things necessary, proper or advisable under applicable Law or otherwise to consummate and make effective the transactions contemplated by this Agreement and the Ancillary Agreements as promptly as practicable. From time to time, as and when requested by any party hereto and at the requesting party's expense, any other party shall execute and deliver, or cause to be executed and delivered, all such further documents conveyances, assurances and instruments and shall take, or cause to be taken, all such further or other actions as the requesting party may reasonably deem necessary, proper, advisable or desirable to evidence and effectuate the intent and purposes of this Agreement and the Ancillary Agreements.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

EXLSERVICE.COM, LLC

By: /s/ Jarrod Yahes

Name: Jarrod Yahes

Title: SVP and Treasurer

HEARTLAND ACQUISITION SUB CORP.

By: /s/ Jarrod Yahes

Name: Jarrod Yahes

Title: SVP and Treasurer

OVERLAND HOLDINGS, INC.

By: /s/ Michael J. Ferguson

Name: Michael J. Ferguson

Title: CEO

[SIGNATURE PAGE TO AGREEMENT AND PLAN OF MERGER]

**NEW MOUNTAIN PARTNERS, L.P.,
solely in its capacity as the Stockholder Representative and
for purposes of Section 5.11**

By: /s/ Steve Klinsky

Name: Steve Klinsky

Title: Managing Member

**NEW MOUNTAIN AFFILIATED INVESTORS, L.P.,
solely in its capacity as the Stockholder Representative and
for purposes of Section 5.11**

By: /s/ Steve Klinsky

Name: Steve Klinsky

Title: Managing Member

[SIGNATURE PAGE TO AGREEMENT AND PLAN OF MERGER]

The following Exhibits and Schedules to the Agreement and Plan of Merger have been omitted in accordance with Item 601(b)(2) of Regulation S-K.

EXHIBITS

Exhibit A	Escrow Agreement
Exhibit B	Certificate of Merger

SCHEDULES

Schedule I	Telephone Numbers and Authorized Signatures for Person(s) Designated to Give Instructions and Confirm Funds Transfer Instructions
Schedule II	Schedule of Fees and Disclosures for Escrow Agent Services

Disclosure Schedules

ExlService Holdings, Inc. (the "Company") will furnish supplementally a copy of any omitted schedule or exhibit to the Securities and Exchange Commission upon request; provided, however, that the Company may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any schedule or exhibit so furnished.

SECTION 302 CERTIFICATION

I, Rohit Kapoor, certify that:

1. I have reviewed this quarterly 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 the 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: October 30, 2014

/s/ ROHIT KAPOOR

Rohit Kapoor
Vice Chairman and Chief Executive Officer

SECTION 302 CERTIFICATION

I, Vishal Chhibbar, certify that:

1. I have reviewed this quarterly 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 the 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: October 30, 2014

/s/ VISHAL CHHIBBAR

Vishal Chhibbar
Executive Vice President and
Chief Financial 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 Quarterly Report of ExlService Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rohit Kapoor, Vice Chairman 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
Vice Chairman and
Chief Executive Officer

Date: October 30, 2014

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 Quarterly Report of ExlService Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Vishal Chhibbar, Executive Vice President and 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
Executive Vice President and
Chief Financial Officer

Date: October 30, 2014