

# EXLSERVICE HOLDINGS, INC.

## FORM 10-K (Annual Report)

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

**FORM 10-K**

(Mark One)

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

**FOR THE YEAR ENDED DECEMBER 31, 2008**

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.)

**350 PARK AVENUE, NEW YORK, NEW YORK**

(Address of principal executive offices)

**10022**

(Zip code)

**(212) 277-7100**

(Registrant's telephone number, including area code)

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

Title of Each Class:

Common Stock, par value \$0.001 per share

Name of Each Exchange on Which Registered:

NASDAQ Global Select Market

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

None

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

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

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

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

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

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

(Do not check if a smaller reporting company)

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

As of June 30, 2008, the aggregate market value of common stock held by non-affiliates was approximately \$199,941,754.

As of February 27, 2009, there were 28,854,565 shares of the registrant's common stock outstanding (excluding 237,080 shares held in treasury), par value \$0.001 per share.

## **DOCUMENTS INCORPORATED BY REFERENCE**

Part III incorporates information from certain portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the fiscal year end of December 31, 2008.

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PART I.

ITEM 1. Business

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

Our services include:



We combine in-depth knowledge of the industry sectors on which we are focused with proven expertise in transferring business operations to our offshore delivery centers and administering and managing them. We have successfully transferred more than 400 processes covering a broad array of products and services to our operations centers, including approximately 100 new processes that were transferred for clients in 2008.

Our largest clients in 2008 were Centrica plc (Centrica) and Norwich Union (an Aviva company). Other clients include fourteen of the leading U.S. insurance carriers, a leading global credit card issuer and a Fortune 500 transportation services provider. Our operations centers are located in India and the Philippines, which enables us to leverage the large pool of highly qualified and educated English-speaking technical professionals in those countries, who are able to handle complex processes and services that require functional skills and industry expertise. We believe we can offer consistent high quality services at substantially lower costs than those available from in-house facilities of U.S.- or U.K.-based outsourcing providers. As of December 31, 2008, we had a headcount of approximately 9,500 individuals (including personnel managed under structured client service agreements), the substantial portion of whom are based in India.

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Our operations platforms are supported by a state-of-the-art infrastructure that can be expanded to meet each client's needs. We market our services directly through our sales and marketing and strategic account management teams, which operate out of the United States and the United Kingdom, and our business development support team, which operates out of Noida, India. Our senior managers have extensive experience in the industry sectors on which we are focused and are well versed in the business practices of leading multinational corporations.

We believe our reputation for operational excellence is widely recognized by our clients and is an important competitive advantage. We use Six Sigma, a data-driven methodology for eliminating defects in any process, to identify process inefficiencies and improve productivity in client and support processes. We also deliver continued process enhancements by soliciting and implementing process improvements from employees and through our proprietary software tools. As a part of our commitment to quality, we have been awarded an ISO 9001 certification for quality assurance. We have also obtained ISO 27001 certification, a standard that requires policies and processes to be deployed to ensure adequate information security. We have been awarded the OHSAS 18001 certification, a standard relating to our occupational health and safety management processes.

### *Services*

#### **Outsourcing Services**

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

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

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

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

***Finance and Accounting Services.*** We provide certain finance and accounting services, including accounts payable, research, reconciliation of accounts and lock-box accounting. We intend to expand our services in this sector to include expense accounting, financial accounting, account consolidation, departmental accounting, account balancing, accounting statements, budgeting and management information systems reporting.

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

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

We continuously seek to offer improved service delivery by means of detailed daily feedback through our ProMPT system and our contractual obligations to report to our clients.

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Across the BPO services described above, we have successfully transferred and managed more than 400 processes, including the following:

### Insurance Processes

#### Life, Health and Annuity

- *Administration of Insurance Agents*

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

- *New Business Processing*

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

- *Administration of Current Policies*

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

- *Premium Administration*

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

- *Claims Processing*

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

- *Fixed Annuities*

Change of address, withdrawals, surrender requests, exchanges, rollovers, transfers, suspensions, tax information

- *Policy Research and Manual Calculation*

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

#### Medical Insurance

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

#### Property and Casualty Insurance

- *New Business Processing*

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

- *Administration of Current Policies*

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

- *Claims Processing*

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

- *Premium Administration*

Payment mode changes, collection, calculation and revision of premium

- *Broker Collections*

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

- *Supplier Payments*

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

- *Appointment Scheduling*

Scheduling appointments between auditors and insureds

**Banking, Financial Services and Other Processes**

Consumer Finance

- Balance disputes
- Billing
- Consumer finance processing including verification, tracking and recording
- Collections
- Credit approvals
- Inbound customer service
- Order status
- Loan payoff
- Telemarketing

Retail Banking and Credit Cards

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

Mortgage Lending

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

Utilities

- Account reconciliation
- Collections
- Customer transfers
- Customer address changes
- Debt collections
- Device management
- Disputed readings
- Energy payment systems
- Metering and billing
- Sales support and acquisitions
- Withdrawals

Finance and Accounting

- Accounts payable management
- Booked vs. billed reconciliation
- Cash reconciliation
- Centralized payments
- Check reconciliation
- Collections reconciliation
- Credit control
- Cash management
- Financial closing and month-end reporting
- Freight bill audit
- Manual intervention
- Meta-tagging and account taxonomy
- Procurement
- Travel and expense reporting
- Validation and payment

Collections

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



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**Customer Service Processes**

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

**Transformation Services**

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

These transformation service offerings focus on helping our clients improve their operating environments through cost reduction, enhanced efficiency and productivity initiatives, and improving the risk and control environment within our clients' operations whether or not they are outsourced to us. Our transformation service offerings have enabled us to expand our client base by providing complementary service offerings to our clients and also to migrate clients into our longer-term BPO service offerings. We actively cross-sell and, where appropriate, integrate our transformation services with our BPO services as part of an integrated solution for our clients. Our transformation services team is comprised of approximately 500 professionals who provide services at our clients' locations or from our offshore delivery centers.

***Decision Analytics***

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

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

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

***Risk and Financial Management***

***Governance, Risk, and Compliance Services.*** Our service offerings provide compliance, technology and risk-management services and we make recommendations to improve our clients' existing business processes and controls. We also evaluate our clients' internal controls and provide internal controls testing services. Our compliance service offerings assist our clients with their efforts to comply with the Sarbanes-Oxley Act of 2002, EU 8<sup>th</sup> Directive, as well as privacy and data protection legislation. Many of our professionals that provide these services are certified accountants, internal auditors and process and technology experts.

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**Accounting and Financial Reporting Services.** We provide services including transaction assurance, accounting services and financial reporting services. Our transaction assurance services include account reconciliation, transaction data analysis and due diligence services for corporate transactions. Our accounting services include GAAP accounting assistance, asset and inventory management services, review of accounting policies and procedures, period-end close assistance and tax accounting and reconciliation. We also provide financial reporting services that include the preparation of regulatory reports and filings as well as budgeting and forecasting services.

### **Operations and Process Excellence Services**

**Opportunity Identification.** We have developed MOST, a unique methodology for identifying process optimization and BPO opportunities, migrating those processes and developing appropriate BPO services that we can customize to meet our clients' requirements.

**Process Re-engineering.** We use our Six Sigma and LEAN improvement methodologies and process management expertise to help clients improve their processes. We improve effectiveness and decrease costs for our clients by consolidating, streamlining and re-engineering their processes and platforms, which we believe encourages them to migrate and outsource processes to us. LEAN is a performance improvement methodology that aims at reviewing the end-to-end process, identifying steps that do not add value and eliminating them.

**Process Mapping and Documentation.** We provide consulting services to our clients in order to manage, control and improve process-oriented activities. As part of these services, we document their processes using our proprietary methodology and define and measure the performance evaluation standards of the processes. We have extensive process mapping experience spanning approximately 500 end-to-end processes.

**Project Management Office Support.** We provide consulting services to our clients with enterprise-wide cost reduction or other project implementations by either leading or supporting such projects by utilizing professionals who provide services at our clients' locations or from our offshore delivery centers.

### **Geographic and Segment Information**

Please see the disclosures in notes 1 and 13 to our consolidated financial statements included with this Annual Report on Form 10-K for segment and geographic information regarding our business.

### **Business Strategy**

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

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

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

#### ***Offering a Broad Range of Outsourcing and Transformation Services***

In servicing our clients, we seek to differentiate ourselves by emphasizing the broad range of outsourcing and transformation services that we provide, including BPO, decision analytics, risk and financial management

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

### *Expanding Our Client Base*

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

### *Extending Our Industry Expertise*

We have developed expertise in transferring and servicing more than 400 BPO processes to our operations centers including more than 250 processes in the insurance industry. This expertise continues to distinguish us from other offshore providers of BPO services and has established our reputation as a leading provider of BPO services. We intend to continue to strengthen our processing capabilities by focusing on the more complex and value-enhancing services that are common to these sectors. We have begun to implement this strategy, further expanding into the transportation and utilities sectors during 2008.

### *Continuing to Focus on Complex Processes*

We intend to continue to leverage our industry expertise to provide increasingly more complex services for our clients. As a result of our established and developing industry expertise and knowledge of our clients' businesses and processes, our employees are able to handle processes that are non-routine and that cannot be readily automated or transferred to other parties. Examples of our newest BPO processes include medical records summarization for legal claims, cargo claims verification and settlement, calculations and recovery of overpayments, loan modification support and loss mitigation services. Our recent decision analytics offerings include tools for helping our clients achieve better returns on marketing investments, retain customers, improve predictability of claims expenses, improve pricing and develop better risk and underwriting models. Our newest operations and process excellence offerings include advanced Six Sigma quality advisory services.

### *Continuing to Invest in Operational Infrastructure*

We intend to continue to invest in infrastructure, including human resources, process optimization and delivery platforms, to meet our growing client requirements. We intend to also continue to invest in developing and refining methodologies and analytical models and tools. We intend to further refine and supplement the innovative methods we use to recruit, train and retain our skilled employees. We intend to continue to focus on recruiting highly qualified employees and to develop our employees' leadership skills through specialized programs, rigorous promotion standards, industry-specific training and competitive compensation packages that include incentive-based compensation. We also intend to continue our focus on process excellence by building on our extensive use of Six Sigma methodology to identify and eliminate inefficiencies, focusing on initiatives to solicit and implement process improvements from employees at all levels and continuing to develop proprietary

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tools to identify and deliver continued process enhancements. We believe that doing so will enable us to increase the volume of business from our clients and provide value-enhancing services. We intend to continue to invest in our operational infrastructure and delivery centers in response to our growing client requirements. For example, we are in the process of adding an additional operations center in Pune, India, which will become operational during 2009.

### *Pursuing Strategic Relationships and Acquisitions*

We intend to continue to selectively consider strategic relationships with industry leaders that add new long-term client relationships, enhance the depth and breadth of our services or complement our business strategy. We also intend to selectively consider acquisitions or investments that will expand the scope of our existing services, add new clients or allow us to enter new geographic markets, such as our acquisition of Inductis in 2006.

We may also broaden our global presence by continuing to expand our relationships with existing clients outside the United States and the United Kingdom and by adding new long-term relationships with leading multinational corporations.

### **Other Information**

Certain U.S. dollar amounts in this Annual Report on Form 10-K have been converted from Indian rupees at a rate of 48.71 Indian rupees to \$1.00 and from pounds sterling at a rate of pounds sterling 1.00 to \$1.45, the exchange rates in effect as on December 31, 2008, unless otherwise specified.

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

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

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

### **The BPO Industry**

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

Companies have historically also used outsourcing to drive revenue growth by expanding service offerings that otherwise would be too costly to administer or through enhanced receivable collections that would not be

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cost-efficient to pursue using internal staff. We believe the demand for BPO services will be primarily led by industries that are transaction-driven and that require significant customer interactions, such as insurance, utilities, financial services, transportation, healthcare and retail. The high cost of servicing a large number of small customer accounts makes outsourcing a compelling strategic alternative for these industries.

### *Trend towards Offshore Delivery of BPO Services*

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

Over the past decade, India and the Philippines have emerged as preferred locations for organizations planning to outsource services ranging from insurance claims processing, payroll processing, medical transcription, customer relationship management to back-office operations such as accounting and data processing, filtering and organization. This is primarily due to their large talent pool of highly qualified and educated English-speaking technical professionals. India currently accounts for the largest share of the offshore BPO services market.

### **Sales and Marketing and Strategic Account Management**

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

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

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

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

As of December 31, 2008, we had 26 sales and marketing and strategic account management professionals in the United States and the United Kingdom. Each member of these teams has significant experience in offshore outsourcing and has expertise in identifying outsourcing opportunities and process migration. We intend to selectively expand our sales and marketing and strategic account management teams.

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Our sales and marketing, strategic account management and business development teams work actively with our service delivery team as the sales process moves closer to the client's decision process to either select or expand their relationship with a service provider. The strategic account manager or sales executive works with the service delivery team to define the scope, services, assumptions and execution strategies for each proposed project and to develop project estimates and pricing and sales proposals. Senior management reviews and approves each proposal. The selling cycle varies depending on the type of service required and generally ranges from six months to eighteen months.

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

### Clients

We currently have approximately 80 clients. Our largest clients in 2008 were Centrica and Norwich Union, which together accounted for approximately 34.0% of our total revenues in 2008. Other clients include fourteen of the leading U.S. insurance carriers, a leading global credit card issuer and a Fortune 500 transportation services provider. While we are developing relationships with new clients and expect to continue to diversify our client base, we believe that the loss of any of our largest clients could have a material adverse effect on our financial performance. See "Item 1A. Risk Factors—Risks Related to Our Business—We have a limited number of clients and provide services to few industries. In 2008, approximately 34.0% of our total revenues came from two clients."

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

We provide services to Centrica under an agreement that has an initial term that expires in January 2010 and that can be terminated by Centrica for cause only during its initial term. Contracts with BPO clients representing approximately 10.0% of our total revenues for 2008 will expire prior to December 31, 2009, excluding any client contracts with automatic renewal clauses. See "Item 1A. Risk Factors—Risks Related to Our Business—Our client contracts contain certain termination provisions that could have an adverse effect on our business, results of operations and financial condition."

We provide services to Norwich Union under a framework agreement and work orders generated by this agreement. The framework agreement expires in February 2012, and can be terminated by our client without cause upon six months prior notice and payment of a break-up fee. In July 2008, we entered into a Deed of Settlement setting forth certain amendments that will be made to the framework agreement.

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

### Competition

Competition in the BPO services industry is intense and growing. See "Item 1A. Risk Factors—Risks Related to Our Business—We face significant competition from U.S.-based and non-U.S.-based outsourcing and information technology companies and from our clients, who may perform outsourcing services themselves, either in-house, in the United States or through offshore groups or other arrangements."

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Many companies, including certain of our clients, choose to perform some or all of their customer service, collections and back-office processes internally. Their employees provide these services as part of their regular business operations. Some companies have moved portions of their in-house customer management functions offshore, including to offshore affiliates. We believe our key advantage over in-house business processes is that we give companies the opportunity to focus on their core products and services while we focus on service delivery and operational excellence. We believe that clients who operate a hybrid business model—partnering with external BPO providers while handling other BPO functions in-house—have the opportunity to benchmark the performance of their internal BPO operations against ours.

We compete primarily against:

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

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

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

### Intellectual Property

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

Our principal intellectual property consists of proprietary software and the know-how of our management. We have received approvals for several trademark applications, including applications for our logo and mark, with the U.S. Patent and Trademark Office and the U.K. Trademark Office. In addition, we have filed trademark applications for the EXL and INDUCTIS marks in India. We have three unregistered trademarks that are publicly used: MOST, EXL Collections System (ECS) and ProMPT. MOST is a proprietary opportunity identification and migration methodology for processes that we have used in connection with a substantial majority of our process migrations. Our proprietary software includes our collections software called ECS and our web-enabled ProMPT system. ProMPT assists our managers in process management and performance evaluation, including tracking individual performance of agents, team leaders and other employees. We have recently launched a new version



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of ProMPT, which includes advanced analytics capacity and process control capabilities and other enhanced features. We consider our business processes and implementation methodologies to be confidential, proprietary information and to include trade secrets that are important to our business. Clients and business partners sign a nondisclosure agreement requiring confidential treatment of our information. Our employees are also required to sign confidentiality agreements as a condition to their employment.

### Technology

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

To increase stable data and telecommunications capacity, we lease bandwidth from a number of different providers globally, including AT&T, VSNL, Telstra, Cable & Wireless and British Telecom. Currently, we have a bandwidth of over 50 megabits-per-second, or Mbps, in the United States and over 60 Mbps in the United Kingdom, which we believe is adequate for our business. We have implemented closed user group connectivity across all processing centers and technology hubs which should allow seamless transition from one center to the other in case of an outage.

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

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

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

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

- our information security policies comply with International Standards, including ISO 27001, for optimal management of various aspects of information security, including personnel, physical, systems and operations center security;
- our information security framework addresses compliance requirements and protection of our clients' and their customers' information;
- specific provisions for complying with the FDIC Safe Harbor Provisions, the Gramm-Leach-Bliley Act, the Health Insurance Portability and Accountability Act, the EU Privacy Directive and other client-specific needs;



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- information systems teams formed for each client for the development, implementation and coordination of policies and procedures specific to that client's processes; and
- periodic internal and external audits of both our information systems policy and implemented controls.

### **Process Compliance and Management**

We have an independent quality compliance team to monitor, analyze, provide feedback on and report process performance and compliance. In addition, we have a customer experience team to assess and improve end customer experience for all processes. Currently, we have over 240 quality compliance analysts and customer experience analysts.

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

### **Employees**

As of December 31, 2008, we had a headcount of approximately 9,500 individuals (including personnel managed under structured client service agreements), the substantial portion of whom are based in India. We have approximately 120 employees in the United States and United Kingdom and approximately 375 employees based out of our new operations center in Philippines. Our employees are not unionized. We have never experienced any work stoppages and believe that our employee relations are good.

### **Hiring and Recruiting**

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

We have developed effective strategies that enable an efficient recruitment process. We have approximately 40 employees dedicated to recruiting located throughout India in areas where we expect that our recruitment efforts will be effective. Some of the strategies we have adopted to increase efficiency in our hiring practices include online voice assessment, dedicated recruitment offices across the country and subsidized housing for new employees who travel from neighboring cities to work at our operations centers. Our hiring policies focus on identifying high quality employees who demonstrate a high propensity for learning, contribution to client services and growth. Candidates must undergo numerous tests and interviews before we extend offers for employment. We also conduct extensive background checks on candidates, including criminal background checks as required by clients or on a sample basis. In addition, we perform random drug testing on the workforce on a regular basis. In 2008, we received more than 38,000 applications for employment and hired approximately 4,200 new professionals. We also have an employee referral program that provides us with a cost effective way of accessing qualified potential employees.

We offer our professionals competitive compensation packages that include significant incentive-based compensation and offer a variety of benefits, including free transport to and from home, subsidized meals, free access to recreational facilities and subsidized housing within close proximity to our operations centers. Our turnover rate for billable employees—employees who execute business processes for our clients following the completion of our six-month probationary period—has come down significantly from approximately 41.0% for the year ended December 31, 2007 to approximately 34.0% for the year ended December 31, 2008. However, as competition in our industry increases, our turnover rate could increase. See “Item 1A. Risk Factors—Risks

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

### *Training and Development*

We dedicate significant resources to the training and development of our professionals. At December 31, 2008, we had over 140 full-time certified trainers. Our trainers work with professionals in our recruitment, operations and quality control teams to create an end-to-end process for value addition, skill evaluation, skill enhancement and certification. We also use training to provide continuity by linking skill assessment at the point of recruitment to subsequent assessment and on-the-job training.

We customize our training design to country, client and service, closely collaborating with the client throughout the training process. Training for new employees includes culture, voice and accent training. We also have ongoing training that includes refresher training programs and personality development programs. In addition, we develop our employees’ leadership skills through leadership development programs, other talent identification and performance management mechanisms and significant monetary and non-monetary incentives.

### **Regulation**

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

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

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

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

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

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### ITEM 1A. Risk Factors

#### Risks Related To Our Business

*We have a limited number of clients and provide services to few industries. In 2008, approximately 34.0% of our total revenues came from two clients.*

We have derived and believe that we will continue to derive a substantial portion of our total revenues from a limited number of large clients. In 2008, our two largest clients, Centrica and Norwich Union, accounted for approximately 34.0% of our total revenues. We generated 23.3% of our total revenues in 2008 from Centrica and 10.6% of our total revenues in 2008 from Norwich Union. We provide services to Centrica under an agreement that expires in January 2010 and that can be terminated by Centrica only for cause. We provide services to Norwich Union under a framework agreement and work orders generated thereby. The framework agreement expires in February 2012 and can be terminated by our client without cause upon six months prior notice and payment of a break-up fee. We expect that a significant portion of our total revenues will continue to be contributed by a limited number of large clients in the near future. The loss or financial difficulties of any of our large clients would have a material adverse effect on our business, results of operations, financial condition and cash flows.

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

The ongoing global economic downturn has disproportionately impacted companies in the banking, financial services and insurance industries, including a number of our clients. A substantial portion of our clients are concentrated in the insurance, banking and financial services sector. In 2008, 57.3% of our total revenues were derived from clients in those industries, including 44.3% of our total revenues that were derived from clients in the insurance industry. Our business largely depends on continued demand for our services from clients and potential clients in these industries. For example, on July 11, 2008, IndyMac Bank, F.S.B., or IndyMac Bank, one of our clients, was closed by the U.S. Treasury Department's Office of Thrift Supervision and the FDIC was named conservator. The FDIC established IndyMac Federal Bank, F.S.B., or IndyMac Federal, as the successor to IndyMac Bank. IndyMac Federal subsequently announced that it would cease mortgage loan origination. As a result, we ceased providing loan origination services to IndyMac Federal and provided a reduced volume of services to IndyMac Federal with regard to its existing mortgage loans. Continued adverse developments in these industries could further unfavorably affect our business. Other developments, such as consolidation, particularly involving our clients, could also cause the demand for our services in these industries to decline.

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

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

We have based our strategy of future growth on certain assumptions regarding our industry and future developments in the market for outsourcing services. For example, we believe that there will continue to be changes in product and service requirements, and investments in the products offered by our clients will continue to increase. However, the trend to outsource business processes may not continue and could reverse. Offshore

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outsourcing is a politically sensitive topic in the United States and elsewhere, and many organizations and public figures have publicly expressed concern about a perceived association between offshore outsourcing providers and the loss of jobs in the United States and elsewhere. In addition, there has been recent publicity about the negative experience of certain companies that use offshore outsourcing, particularly in India. Current or prospective clients may elect to perform such services themselves or may be discouraged from transferring these services to offshore providers to avoid any negative perception that may be associated with using an offshore provider. Any slowdown or reversal of existing industry trends would harm our ability to compete effectively with competitors that operate out of facilities located in the United States and elsewhere.

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

In other countries, such as the United Kingdom which comprised 42.8% of our total revenues in 2008, there has also been some negative publicity and concern expressed regarding the possible effect of job losses caused by outsourcing. Legislation introduced in the United Kingdom (consolidating past case law) in 2006 provides that if a company transfers or outsources its business or a part of its business to a transferee or a service provider, the employees who were employed in such business are entitled to become employed by the transferee or service provider on the same terms and conditions as they had been employed before the transfer. The dismissal of such employees as a result of such transfer of business is deemed unfair dismissal and entitles the employees to compensation. As a result, we may become liable for redundancy payments to the employees of our clients in the United Kingdom who outsource business to us. We are generally indemnified in our existing contracts with clients in the United Kingdom to the extent we incur losses or additional costs due to the application of this legislation to us, and we intend to obtain indemnification in future contracts with clients. However, if we are unable to obtain indemnification in future contracts with clients, we may be liable under any agreements we enter into in the future with United Kingdom clients.

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

We provide services to Centrica under an agreement that has an initial term that expires in January 2010 and that can be terminated by Centrica only for cause. We generated 23.3% of our total revenues in 2008 from Centrica. We provide services to Norwich Union under a framework agreement and work orders generated thereby. We generated 10.6% of our total revenues in 2008 from Norwich Union. The framework agreement expires in February 2012 and can be terminated by our client without cause upon six months prior notice and payment of a break-up fee. Contracts with BPO clients representing approximately 10.0% of our total revenues for the year ended December 31, 2008 will expire prior to December 31, 2009, excluding any client contracts with automatic renewal clauses. The termination of a substantial percentage of these contracts with or without cause could have a material adverse impact on the predictability of our expected revenue stream. Many of our client contracts may be terminated by our clients without cause and do not commit our clients to provide us with a specific volume of business. Any failure to meet a client's expectations could result in a cancellation or non-renewal of a contract or a decrease in business provided to us. We may not be able to replace any client that elects to terminate or not renew its contract with us, which would reduce our revenues.

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

The BPO industry is very labor intensive and our success depends to a significant extent on our ability to attract, hire, train and retain qualified employees, including our ability to attract employees with needed skills in the geographic areas in which we operate. The industry, including us, experiences high employee turnover. In 2008, our turnover rate for billable employees was approximately 34.0%. There is significant competition for professionals with skills necessary to perform the services we offer to our clients. Increased competition for these professionals, in the BPO industry or otherwise, could have an adverse effect on us. A significant increase in the turnover rate among our employees, particularly among the highly skilled workforce needed to provide BPO services, would increase our recruiting and training costs and decrease our operating efficiency, productivity and profit margins, and could lead to a decline in demand for our services. High turnover rates generally do not impact our revenues as we factor the attrition rate into our pricing models by maintaining additional employees for each process. However, high turnover rates do increase our cost of revenues and therefore impact our profit margins due to higher recruitment, training and retention costs as a result of maintaining larger hiring, training and human resources departments and higher operating costs due to having to reallocate certain business processes among our operations centers where we have access to the skilled workforce needed for the business. In 2008, we incurred approximately \$1.6 million on recruitment and approximately \$0.5 million on training costs due to employee turnover, thereby increasing our costs and reducing our profit margins for that period by \$2.1 million.

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

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

We have a long selling cycle for our BPO services, which requires significant investment of capital, resources and time by both our clients and us. Before committing to use our services, potential clients require us to expend substantial time and resources educating them as to the value of our services and assessing the feasibility of integrating our systems and processes with theirs. Our clients then evaluate our services before deciding whether to use them. Therefore, our selling cycle, which generally ranges from six to 12 months, is subject to many risks and delays over which we have little or no control, including our clients' decision to choose alternatives to our services (such as other providers or in-house offshore resources) and the timing of our clients' budget cycles and approval processes. In addition, we may not be able to successfully conclude a contract after the selling cycle is complete.

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

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

When we are engaged by a client after the selling process for our BPO services, it takes from four to six weeks to integrate the client's systems with ours, and up to three months thereafter to build up our services to the

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client's requirements. Depending on the complexity of the processes being implemented, these time periods may be significantly longer. Implementing processes can be subject to potential delays similar to certain of those affecting the selling cycle. Therefore, we do not recognize significant revenues until after we have completed the implementation phase.

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

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

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

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

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

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

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

In addition, our decision analytics services and our risk and financial management services usually consist of specific projects with contract terms generally not exceeding one year and may not produce ongoing or recurring business for us once the project is completed. These contracts also usually contain provisions permitting termination of the contract after a short notice period. The short-term nature and specificity of these projects could lead to material fluctuations and uncertainties in the revenues generated from these businesses.



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

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

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

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

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

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

Since we were founded in April 1999, we have experienced rapid growth and significantly expanded our operations. We have ten operations centers in India and the Philippines, including a 900-workstation center in Pasay City, Philippines, that became operational in April 2008. Our headcount has increased from approximately 1,800 on December 31, 2002 to approximately 9,500 (including personnel managed under structured client service agreements) on December 31, 2008. We expect to develop and improve our internal systems in the

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locations where we operate in order to address the anticipated growth of our business. We are also looking at additional locations other than India and the Philippines to invest in an operations center. We believe expanding our geographic base of operations will provide higher value to our clients by decreasing the risks of operating from a single country (including potential shortages of skilled employees, increases in wage costs during strong economic times and currency fluctuations), while also giving our clients access to a wider talent pool and establishing a base in countries that may be competitive in the future. However, we may not be able to effectively manage our infrastructure and employee expansion, open additional operations centers or hire additional skilled employees as and when they are required to meet the ongoing needs of our clients, and we may not be able to develop and improve our internal systems. Our inability to execute our growth strategy, to ensure the continued adequacy of our current systems or to manage our expansion effectively could have a material adverse effect on our business, results of operations, financial condition and cash flows.

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

Our most significant costs are the salaries and related benefits of our operations staff and other employees. For example, wage costs in India have historically been significantly lower than wage costs in the United States and Europe for comparably skilled professionals, which has been one of our competitive advantages. However, because of rapid economic growth in India, increased demand for BPO services from India and increased competition for skilled employees in India, wages for comparably skilled employees in India are increasing at a faster rate than in the United States and Europe, which may reduce this competitive advantage. We may need to increase the levels of employee compensation more rapidly than in the past to remain competitive in attracting and retaining the quality and number of employees that our business requires. Wages are generally higher for employees performing decision analytics services and risk and financial management services than for employees performing BPO services. As the scale of our decision analytics services and our risk and financial management services increases, wages as a percentage of revenues will likely increase. Wage increases in the long term may reduce our profit margins. Additionally, because substantially all of our employees are based in India and paid in Indian rupees, while our revenues are primarily in U.S. dollars and pounds sterling, our employee costs as a percentage of revenues may increase or decrease significantly if the exchange rates among the Indian rupee, the pound sterling and the U.S. dollar fluctuate significantly.

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

The market for outsourcing services is highly competitive, and we expect competition to intensify and increase from a number of sources. We believe that the principal competitive factors in our markets are price, service quality, sales and marketing skills, the ability to develop customized services and technological and industry expertise. We face significant competition for our services from our clients' own in-house groups, including, in some cases, in-house groups operating offshore. In addition, our total revenues in 2009 could be affected by the decision of a limited number of our other clients to move work from third-party contractors to in-house groups operating offshore or to decrease work from third-party contractors as a result of internal strategic restructurings.

We also face competition from non-U.S.-based outsourcing and IT companies (including those in the United Kingdom and India) and U.S.-based outsourcing and IT companies. In addition, the trend toward offshore outsourcing, international expansion by foreign and domestic competitors and continuing technological changes will result in new and different competitors entering our markets. These competitors may include entrants from the communications, software and data networking industries or entrants in geographic locations with lower costs than those in which we operate. Some of these existing and future competitors have greater financial, personnel and other resources, a broader range of service offerings, greater technological expertise, more recognizable



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brand names and more established relationships in industries that we currently serve or may serve in the future. In addition, some of our competitors may enter into strategic or commercial relationships among themselves or with larger, more established companies in order to increase their ability to address client needs, or enter into similar arrangements with potential clients. The trend in multi-vendor relationships has been growing, which could reduce our revenues to the extent that clients obtain services from other vendors. Increased competition, our inability to compete successfully against competitors, pricing pressures or loss of market share could result in reduced operating margins, which could harm our business, results of operations, financial condition and cash flows.

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

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

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

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

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

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

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

A majority of the issued and outstanding shares of our common stock are currently beneficially owned by Oak Hill Capital Partners L.P. and certain of its affiliates, our Executive Chairman, Vikram Talwar, and our President and Chief Executive Officer, Rohit Kapoor. As of December 31, 2008, Oak Hill Capital Partners L.P. and certain of its affiliates beneficially owned 10,542,504 shares (or 36.6%) of our outstanding common stock; Mr. Talwar and certain trusts for his benefit and that of his family collectively beneficially owned 1,873,963 shares (or 6.5%) of our outstanding common stock; and Mr. Kapoor and certain trusts for his benefit and that of his family collectively beneficially owned 2,125,959 shares (or 7.4%) of our outstanding common stock. Accordingly, each of these parties can exercise significant influence over our business policies and affairs and all matters requiring a stockholders' vote, including the composition of our board of directors, the adoption of amendments to our certificate of incorporation and the approval of mergers or sales of substantially all of our assets. This concentration of ownership also may delay, defer or even prevent a change in control of our company and may make some transactions more difficult or impossible without the support of these stockholders. The interests of these stockholders may conflict with your interests.

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

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

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

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

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

We are exploring opportunities to provide outsourced services that we have not provided to date. Should we decide to expand our service offerings, our results of operations may be negatively affected during any transition or growth period before such offerings achieve profitability. For example, we may need to expand our training of our existing employees or recruit new, specially-trained employees to provide these services, which could

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increase our costs of revenues disproportionately to the revenues generated by such services. Other challenges we may face include attracting and retaining clients for such services, integrating any new services into our current suite of services and managing any resulting growth in our operations.

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

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

### **Risks Related to the International Nature of our Business**

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

Under the Indian Finance Act, 2000, we currently benefit from a holiday from Indian corporate income taxes. As a result, our service operations have been subject to relatively lower tax liabilities. We incurred minimal income tax expense in 2008 as a result of the tax holiday, compared to approximately \$5.5 million that we would have incurred if the tax holiday had not been available for that period (without accounting for double taxation treaty set-offs). Our current tax holiday expires in 2010. When our tax holiday expires or terminates, our tax expense will materially increase.

In May 2007, the Government of India adopted the Indian Finance Act, 2007, that imposed a minimum alternative tax, or MAT, on Indian companies that benefit from a tax holiday with effect from April 1, 2007. Any MAT paid by us can be carried forward for a maximum period of eight years and can be used as a credit against corporate income taxes payable by us after expiration of the tax holiday, subject to the satisfaction of certain conditions.

In addition, in May 2007, the Government of India implemented a fringe benefit tax on the exercise or vesting of equity instruments on or after April 1, 2007. The fringe benefit tax is payable by the employer on the exercise of options at the rate of 33.99% on the difference between the fair market value and the exercise price of such options on the date of vesting of such options. The fringe benefit tax is also payable on the vesting of full value awards such as restricted stock at the rate of 33.99% on the fair market value of such awards. The legislation permits the employer to recover the fringe benefit tax from the employees and we seek to recover the fringe benefit tax from those of our employees on whose behalf such tax is payable by us. If we are unsuccessful in recovering the fringe benefit tax from our employees, we may experience a material adverse effect on our cash flows.

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

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

U.S. and Indian transfer pricing regulations require that any international transaction involving associated enterprises be at an arm's-length price. Transactions among the Company's subsidiaries and the Company may be required to satisfy such requirements. Accordingly, the Company determines the pricing among its associated enterprises on the basis of detailed functional and economic analysis involving benchmarking against transactions among entities that are not under common control. If the applicable income tax authorities review any of the Company's tax returns and determine that the transfer price applied was not appropriate, the Company may incur increased tax liability, including accrued interest and penalties. The Company is currently involved in disputes with the Indian tax authorities over the application of some of its transfer pricing policies. The Company has received six assessment orders from the Indian tax authorities with respect to their audit of certain of the Company's subsidiaries. The Indian tax authorities are examining income tax returns for other tax years. The details of the assessment orders as of December 31, 2008 are as below:

Entity	Tax Year	Issue	Amount Demanded	Amount Deposited
Exl India	2003-04	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. in the 2003-04 tax year was not appropriate and disallows certain expenses claimed as tax deductible by EXL India.	\$1.9 million	\$ 1.9 million
Exl India	2004-05	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. for the 2004-05 tax year was not appropriate and disallows certain expenses claimed as tax deductible by EXL India.	\$2.0 million	\$ 2.0 million
Exl India	2005-06	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. for the 2005-06 tax year was not appropriate and disallows certain expenses claimed as tax deductible by EXL India.	\$5.0 million	\$ —
Exl Inc.	2003-04	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$3.0 million	\$ 1.4 million
Exl Inc.	2004-05	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$0.1 million	\$ 0.1 million
Exl Inc.	2005-06	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$0.7 million	\$ 0.4 million

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

We have deposited the entire amount demanded by the Indian tax authorities with respect to the assessment orders received by Exl India for the 2003-04 and 2004-05 tax years and partial amounts with respect to the assessment orders received by Exl Inc. Subsequent to December 31, 2008, we have reached agreement with the Indian tax authorities for a deposit of approximately \$1.6 million with respect to the assessment order received by Exl India for the 2005-06 tax year, of which we have deposited \$0.8 million to date and expect to deposit the remainder in the near future. There is a likelihood that we might receive similar orders for other years until the above disputes are resolved. Future claims may be based on the transfer pricing or permanent establishment claims alleged by the Indian tax authorities, or may be based on alternative arguments. Any failure of our appeals or further assessments would reduce our profitability and cash flows.

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

Although a substantial portion of our revenues are denominated in U.K. pounds sterling (42.8% in 2008) or U.S. dollars (56.4% in 2008), most of our expenses (64.3% in 2008) are incurred and paid in Indian rupees. We report our financial results in U.S. dollars. The exchange rates among the Indian rupee, the U.K. pound sterling, the Philippine Peso and the U.S. dollar have changed substantially in recent years and may fluctuate substantially in the future. The average Indian rupee/U.S. dollar exchange rate in 2008 was approximately 43.39 (based on the noon buying rate in the City of New York for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York), representing depreciation of the Indian rupee of 5.4% compared to the average exchange rate in 2007. The average Indian rupee/U.K. pound sterling exchange rate in 2008 was approximately 80.06 (based on the Bloomberg Composite Rate), representing appreciation of 4.2% compared to the average exchange rate in 2007. The average U.S. dollar/U.K. pound sterling exchange rate in 2008 was approximately 1.85 (based on the noon buying rate in the City of New York for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York) representing depreciation of 7.5% compared to the average exchange rate in 2007. Although we take steps to hedge a substantial portion of our Indian rupee/U.S. dollar foreign currency exposures, our results of operations may be adversely affected if the Indian rupee fluctuates significantly against the U.K. pound sterling or the U.S. dollar, the U.K. pound sterling further depreciates against the U.S. dollar, our hedging strategy is unsuccessful or if the hedging markets have insufficient liquidity or depth to allow us to implement our hedging strategy in a cost-effective manner. Any failure by our hedging counterparties to meet their contractual obligations thereunder could materially and adversely effect our profitability.

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

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

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

Our principal operating subsidiaries are incorporated in India, and virtually all of our assets and our professionals are located in India. We intend to continue to develop and expand our offshore facilities in India. In the early 1990s, India experienced significant inflation, low growth in gross domestic product and shortages of foreign currency reserves. The Indian government, however, has exercised and continues to exercise significant influence over many aspects of the Indian economy. India's government has provided significant tax incentives and relaxed certain regulatory restrictions in order to encourage foreign investment in specified sectors of the

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economy, including the BPO industry. Certain of those programs, which have benefited us, include tax holidays, liberalized import and export duties and preferential rules on foreign investment and repatriation. We cannot assure you that liberalization policies will continue.

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

Furthermore, the rate of economic liberalization could change, and specific laws and policies affecting technology companies, foreign investment, currency exchange rates and other matters affecting investment in our securities could also change. Since 1996, the Government of India has changed six times. The current Indian government is a coalition of many parties, some of which are communist and other far left parties in India, some of which do not want to continue India's current economic policies. Various factors, including a collapse of the present coalition government due to the withdrawal of support of coalition members, could trigger significant changes in India's economic liberalization and deregulation policies, disrupt business and economic conditions in India generally and our business in particular. Our financial performance and the trading price of our shares may be adversely affected by changes in inflation, exchange rates and controls, interest rates, Government of India policies (including taxation policies), social stability or other political, economic or diplomatic developments affecting India in the future.

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

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

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

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

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



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

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

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

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

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

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

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

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

Sections 44A and Section 13 of the Indian Civil Procedure Code, 1908, or the Civil Code, govern recognition and enforcement of foreign judgments. Section 44A of the Civil Code provides for recognition and enforcement of a foreign judgment without having to file an original suit in India, provided such judgments have been rendered by courts in a country or territory outside India which the Government of India has declared to be a reciprocating territory. We have been advised by our Indian counsel that the United States and India do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than certain

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arbitration awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not it is predicated upon the federal securities laws of the United States, would not be enforceable in India as such.

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

### ITEM 1B. Unresolved Staff Comments.

None.

### ITEM 2. Properties.

Our corporate headquarters is located in New York, New York. We operate twelve operations centers in India, Philippines and the U.S., with a current installed capacity of approximately 6,887 agent workstations that operate on an uninterrupted 24/7 basis and are available to be staffed on a three-shift basis. Our networking and telecommunication hubs are located in Sunnyvale, California and in New York, New York. Out of our nine operations centers in India, we own an area representing 86,361 sq. ft. and containing 1,141 agent workstations in our operations center in Pune, India. We lease all of our other properties. The following table describes each of our material properties and lease expiration dates as of December 31, 2008. We have a new 92,300 square foot center containing approximately 900 agent workstations in Pasay City, Philippines, which commenced operations in April 2008. We do not have the option under our present lease agreements for these properties to buy the properties should we desire to do so.

<u>Facility</u>	<u>Location</u>	<u>Space</u>	<u>No. of Agent Workstations</u>	<u>Lease Expiration</u>
Corporate Headquarters	New York, New York	8,940 sq. ft.	N/A	March 31, 2009
Operations Center I	Noida, India	50,000 sq. ft.	658	March 14, 2010 (option to extend until 2015)
Operations Center II	Noida, India	39,700 sq. ft.	485	May 17, 2013
Operations Center III	Noida, India	68,800 sq. ft.	591	May 7, 2011
Operations Center IV-A	Pune, India	86,361 sq. ft.	1,141	Owned
Operations Center V	Noida, India	104,000 sq. ft.	949	August 29, 2010 (option to extend until 2023)
Operations Center VI	Noida, India	100,000 sq. ft.	1083	November 30, 2011 (option to extend until 2024)
Operations Center VII	Gurgaon, India	20,628 sq. ft.	197	July 19, 2011 (option to extend until 2014)
Operations Center VIII	Gurgaon, India	47,874 sq. ft.	576	October 31, 2011
U.S. Operations and Administration	Jersey City, New Jersey	20,469 sq. ft.	N/A	February 28, 2014
Operations Center IX	Pasay City, Philippines	92,300 sq. ft.	900	May 13, 2018 (option to extend until 2028)
Operations Center X	Noida, India	23,824 sq. ft.	307	October 31, 2013 (option to exit commencing November 30, 2009)

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



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### ITEM 3. Legal Proceedings

#### Tax Proceedings

U.S. and Indian transfer pricing regulations require that any international transaction involving associated enterprises be at an arm's-length price. Transactions among the Company's subsidiaries and the Company may be required to satisfy such requirements. Accordingly, the Company determines the pricing among its associated enterprises on the basis of detailed functional and economic analysis involving benchmarking against transactions among entities that are not under common control. If the applicable income tax authorities review any of the Company's tax returns and determine that the transfer price applied was not appropriate, the Company may incur increased tax liability, including accrued interest and penalties. The Company is currently involved in disputes with the Indian tax authorities over the application of some of its transfer pricing policies. The Company has received six assessment orders from the Indian tax authorities with respect to their audit of certain of the Company's subsidiaries. The Indian tax authorities are examining income tax returns for other tax years. The details of the assessment orders as of December 31, 2008 are as below:

Entity	Tax Year	Issue	Amount Demanded	Amount Deposited
Exl India	2003-04	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. in the 2003-04 tax year was not appropriate and disallows certain expenses claimed as tax deductible by EXL India.	\$ 1.9 million	\$ 1.9 million
Exl India	2004-05	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. for the 2004-05 tax year was not appropriate and disallows certain expenses claimed as tax deductible by EXL India.	\$ 2.0 million	\$ 2.0 million
Exl India	2005-06	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. for the 2005-06 tax year was not appropriate and disallows certain expenses claimed as tax deductible by EXL India.	\$ 5.0 million	\$ —
Exl Inc.	2003-04	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$ 3.0 million	\$ 1.4 million
Exl Inc.	2004-05	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$ 0.1 million	\$ 0.1 million
Exl Inc.	2005-06	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$ 0.7 million	\$ 0.4 million

Based on advice from our Indian tax advisors, the facts underlying our position and our experience with these types of assessments, we continue to believe that the probability of loss is remote and have not accrued any amount with respect to these matters in our consolidated financial statements. Any amount paid by us as deposits will be refunded to us with interest if we succeed in our appeals with the appropriate tax authorities. We cannot assure you that our appeals will be successful or that these appeals will be finally resolved in the near future. Amounts paid as deposits in respect of the assessments described above, totaling \$5.8 million and \$4.3 million as of December 31, 2008 and December 31, 2007, respectively, are included in "Other Assets" in our consolidated balance sheet.

We have deposited the entire amount demanded by the Indian tax authorities with respect to the assessment orders received by Exl India for the 2003-04 and 2004-05 tax years and partial amounts with respect to the assessment orders received by Exl Inc. Subsequent to December 31, 2008, we have reached agreement with the Indian tax authorities for a deposit of approximately \$1.6 million with respect to the assessment order received by Exl India for the 2005-06 tax year, of which we have deposited \$0.8 million to date and expect to deposit the remainder in the near future. There is a likelihood that we might receive similar orders for other years until the

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above disputes are resolved. Future claims may be based on the transfer pricing or permanent establishment claims alleged by the Indian tax authorities, or may be based on alternative arguments. Any failure of our appeals or further assessments would reduce our profitability and cash flows.

### **Other Proceedings**

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

### **ITEM 4. Submission of Matters to a Vote of Security Holders.**

None.

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### PART II.

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

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

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

Calendar Period	Price Range	
	High	Low
<b>2007</b>		
First Quarter	\$27.00	\$20.03
Second Quarter	\$23.29	\$17.74
Third Quarter	\$22.50	\$15.49
Fourth Quarter	\$28.96	\$19.90
<b>2008</b>		
First Quarter	\$25.67	\$16.43
Second Quarter	\$26.00	\$13.88
Third Quarter	\$17.05	\$ 7.60
Fourth Quarter	\$ 9.20	\$ 4.43

As of February 27, 2009, there were 43 holders of record of our outstanding common stock.

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

#### Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased	Approximate Dollar Value of Shares that May Yet Be Purchased
			as Part of Publicly Announced Plans or Programs	Under the Plans or Programs
October 1 - October 31, 2008	—	\$ —	—	\$ 10,000,000
November 1 - November 30, 2008	40,616	\$ 5.91	40,616	\$ 9,760,150
December 1 - December 31, 2008	16,233	\$ 6.14	16,233	\$ 9,660,492

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

On November 6, 2008, the Company announced that it had commenced a \$10.0 million share repurchase program with regard to shares of its common stock. The program expires by its terms in November 2009.

During the three months ended December 31, 2008, the Company acquired 1,204 shares of common stock from employees in connection with withholding tax payments related to the vesting of restricted stock for a total consideration of \$7,789. The purchase price of \$6.47 per share was the average of the high and low price of the Company's shares of common stock on the Nasdaq Global Select Market on the trading day prior to the vesting date of the shares of restricted stock. During the year ended December 31, 2008, the Company acquired 16,541 shares of common stock from employees in connection with withholding tax payments related to the vesting of restricted stock for a total consideration of \$245,550. These shares are held as treasury stock.

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### Equity Compensation Plan Information

The following table provides information as of December 31, 2008 with respect to the shares of our common stock that may be issued under our existing equity compensation plans. We have the following equity compensation plans, each of which has been approved by our stockholders: (1) our 2003 Stock Option Plan, (2) our 2003 India Stock Employee Option Plan and (3) our 2006 Omnibus Award Plan (including two India sub plans thereunder). For a description of each of our equity compensation plans, please see Note 11 to our consolidated financial statements.

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Equity Awards</u>	<u>Weighted Average Exercise Price of Outstanding Equity Awards</u>	<u>Number of Securities Available for Future Issuance Under Equity Compensation Plans</u>
Equity compensation plans that have been approved by security holders	2,390,997	\$ 15.94	1,664,110
Equity compensation plans not approved by security holders	—	—	—
Total	<u>2,390,997</u>	<u>\$ 15.94</u>	<u>1,664,110</u>

At a special meeting of stockholders held on January 29, 2009, our stockholders approved, among other things, an amendment to our 2006 Omnibus Award Plan to increase the number of shares of our common stock issuable there under by 4,000,000 shares, which brought the total number of shares reserved under the plan to 7,729,238.

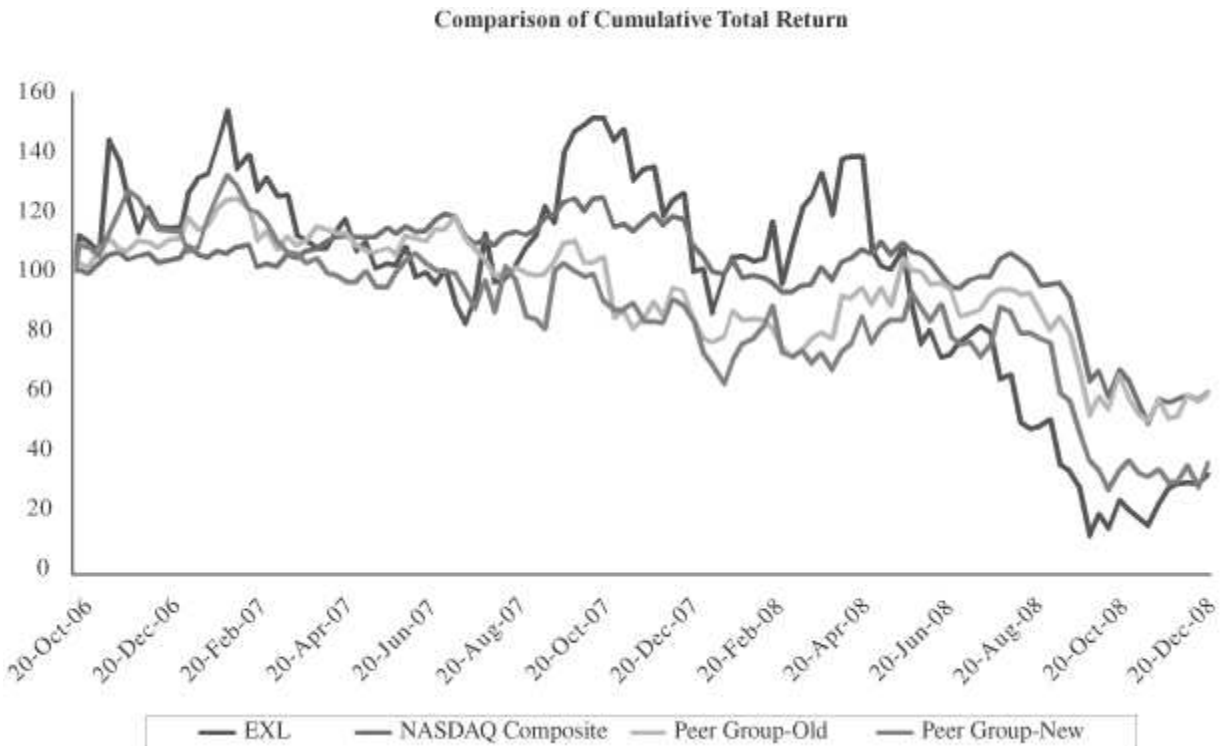
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### Recent Sales of Unregistered Securities

None.

### Performance Graph

The following graph compares the cumulative total stockholder return on our common stock with the cumulative total return of the Nasdaq 100 Index (capitalization weighted), our previous peer group of companies and our new peer group of companies for the period beginning October 20, 2006. Our new peer group of companies is comprised of two companies that we believe are our closest reporting issuer competitors: WNS (Holdings) Limited (WNS) and Genpact Limited (Genpact). Our previous peer group of companies included WNS and Genpact along with Cognizant Technology Solutions Corp., Accenture Ltd., Infosys Technologies Limited and Wipro Technologies Limited. We have changed our peer group of companies in 2008 to better reflect the companies that we more closely compete with for new business. The returns of the component entities of our peer group index are weighted according to the market capitalization of each entity as of the beginning of each period for which a return is presented. The stock performance shown on the graph below is not indicative of future price performance.



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### ITEM 6. Selected Financial Data

The following table sets forth our selected consolidated historical financial data as of the dates and for the periods indicated. Our selected consolidated financial data set forth below as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008 has been derived from our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. Our selected consolidated financial data set forth below as of December 31, 2006, 2005 and 2004 and for each of the years ended December 31, 2005 and 2004 are derived from our audited financial statements, which are not included in this Annual Report on Form 10-K. Our selected consolidated financial information for 2008, 2007 and 2006 should be read in conjunction with our consolidated financial statements and the notes thereto and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” which are included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2008	2007	2006	2005 (unaudited)	2004 (unaudited)
	(in millions, except share and per share data)				
<b>Consolidated Statement of Operations Data:</b>					
Total revenues(1)	\$ 181.7	\$ 152.0	\$ 98.7	\$ 54.2	\$ 51.8
Cost of revenues (exclusive of depreciation and amortization)(2)	112.4	100.1	62.6	38.1	34.5
Gross profit	69.3	51.9	36.1	16.1	17.3
Selling, general and administrative expenses(3)	42.4	37.9	23.4	14.2	12.4
Depreciation and amortization expenses (4)	11.2	9.2	7.1	4.0	2.7
Income/(loss) from continuing operations	15.7	4.8	5.6	(2.1)	2.2
Total other income (expense)	(5.9)	11.8	0.8	0.4	0.1
Income/(loss) from continuing operations before income taxes	9.8	16.6	6.4	(1.7)	2.3
Income tax provision/(benefit)	(1.3)	(1.0)	(0.3)	3.0	(0.5)
Income from continuing operations	11.1	17.6	6.7	1.3	2.8
Income from discontinued operations, net of taxes	3.3	9.4	7.3	5.7	2.6
Income from continuing operations	14.4	27.0	14.0	7.0	5.4
Dividend and accretion to preferred stock	—	—	(0.6)	(0.2)	—
Net income to common stockholders	\$ 14.4	\$ 27.0	\$ 13.4	\$ 6.8	\$ 5.4
Earnings per share:					
Basic:					
Continuing operations	\$ 0.39	\$ 0.62	\$ 0.27	\$ 0.05	\$ 0.13
Discontinued operations	\$ 0.11	\$ 0.33	\$ 0.32	\$ 0.27	\$ 0.13
Diluted:					
Continuing operations	\$ 0.38	\$ 0.60	\$ 0.26	\$ 0.05	\$ 0.13
Discontinued operations	\$ 0.11	\$ 0.32	\$ 0.32	\$ 0.27	\$ 0.13
Weighted average number of common shares outstanding					
Basic	28,811,040	28,480,033	22,863,539	21,174,548	20,518,332
Diluted	29,212,045	29,191,199	23,033,266	21,591,028	21,017,252

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	At December 31,				
	2008	2007	2006 (unaudited) (in millions)	2005 (unaudited)	2004 (unaudited)
<b>Consolidated Statement of Financial Position Data:</b>					
Cash and cash equivalents	\$112.2	\$101.4	\$ 84.7	\$ 23.9	\$ 18.6
Working capital(5)	118.8	119.6	85.0	24.0	18.4
Total assets	212.0	218.4	169.2	63.6	53.9
Other long term obligations(6)	0.2	0.3	0.2	5.8	11.4
Preferred stock (liquidation preference)	—	—	—	6.2	—
Stockholders' equity	171.3	174.0	127.2	30.9	24.8

- (1) In accordance with GAAP, we include the amount of telecommunications and travel-related costs that are billed to and reimbursed by our clients in our revenues. Revenues include reimbursable expenses of \$11.8 million in 2008, \$7.1 million in 2007, \$4.4 million in 2006, \$2.7 million in 2005 and \$3.6 million in 2004.
- (2) Cost of revenues for the years ended December 31, 2008, 2007, 2006, 2005 and 2004 include \$1.1 million, \$1.1 million, \$0.5 million, \$0 and \$0, respectively, as non-cash amortization of stock compensation expense relating to the issuance of equity awards to employees directly involved in providing services to our clients. Cost of revenues excludes depreciation and amortization related to fixed assets.
- (3) SG&A expenses for the years ended December 31, 2008, 2007, 2006, 2005 and 2004 include \$4.2 million, \$3.2 million, \$1.5 million, \$0.1 million and \$0.1 million respectively, as non-cash amortization of stock compensation expense relating to the issuance of equity awards to our non-operations staff.
- (4) Depreciation and amortization for the years ended December 31, 2008, 2007, 2006, 2005 and 2004 includes \$0.5 million, \$1.6 million, \$1.2 million, \$0, and \$0, respectively, as amortization of intangibles.
- (5) Working capital means total current assets minus total current liabilities.
- (6) Other long-term obligations include senior long-term debt and capital leases.

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

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

#### Overview

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

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

We completed the Inductis acquisition on July 1, 2006. The Inductis acquisition has expanded the types and sophistication of the decision analytics services we offer. The results of operations of Inductis are consolidated in our financial statements with effect from July 1, 2006. As a result, our results of operations for the years ended December 31, 2008 and 2007 are not comparable to our results of operations for the year ended December 31, 2006.

On October 25, 2006, we consummated an initial public offering of our shares of common stock. Our initial public offering resulted in net proceeds of \$69.8 million to us after deducting underwriting discounts and commissions and related expenses. Our common stock is traded on the Nasdaq Global Select Market under the symbol "EXLS." In connection with the initial public offering, we effected a conversion of our common stock and a two-for-one stock split.

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

#### Revenues

We generate revenues principally from contracts to provide outsourcing and transformation services. In 2008, we had total revenues of \$181.7 million compared to total revenues of \$152.0 million in 2007, an increase of 19.5%. The key drivers of growth in our total revenues in 2008 were as follows:

- expansion of our client base,
- ongoing growth in existing client relationships, and
- addition of new services in the transformation services business.



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We anticipate that our revenues will grow as we expand our service offerings, both organically and through acquisitions. Revenues from new clients are an indicator of successful marketing efforts and do not represent a trend in our results of operations. We provide our clients with a range of outsourcing services, including insurance services, banking and financial services, utilities, finance and accounting services and collection services. Our clients transfer the management and execution of their processes or business functions to us. As part of this transfer, we hire and train employees to work at our operations centers on the relevant outsourcing services, implement a process migration to these operations centers and then provide services either to the client or directly to the client's customers. Each client contract has different terms based on the scope, deliverables and complexity of the engagement. The outsourcing services we provide to any of our clients (particularly under our general framework agreements), and the revenues and income that we derive from those services, may decline or vary as the type and quantity of services we provide under those contracts change over time, including as a result of a shift in the mix of products and services we provide.

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

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

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

We serve clients mainly in the United States and the United Kingdom, with these two regions generating approximately 56.4% and 42.8%, respectively, of our total revenues for the year ended December 31, 2008 and approximately 54.0% and 45.7%, respectively, of our total revenues for the year ended December 31, 2007.

In both the United States and the United Kingdom, there has been recent negative publicity and proposed legislation with regard to outsourcing. See "Item 1A. Risk Factors—Risks Related to Our Business—Our industry may not develop in ways that we currently anticipate due to negative public reaction in the United States and elsewhere to offshore outsourcing, recently proposed legislation or otherwise." If these trends continue and result in the enactment of additional legislation for which we are unable to contractually protect ourselves, our revenues could be materially affected. With the recent global economic downturn and resulting increases in unemployment in both of these countries, we expect these publicity and legislative trends to continue and possibly intensify. Our management actively monitors legislative activities in the United States and United Kingdom, both directly and through industry organizations. However, if legislation were enacted in the United Kingdom or the United States that has the effect of severely curtailing our activities in such countries, it is unlikely that we would be able to quickly replace such lost revenues.

We derive a significant portion of our revenues from a limited number of large clients. In the years ended December 31, 2008 and 2007, our total revenues from our two largest clients were \$61.7 million and \$65.0 million, respectively, accounting for 34.0% and 42.7% of our total revenues, respectively, during these periods.

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We provide services to Centrica, which represented \$42.4 million, or 23.3%, of our total revenues for the year ended December 31, 2008 and \$44.4 million, or 29.2% of our total revenues for the year ended December 31, 2007, under an agreement that is scheduled to expire on January 25, 2010.

We provide services to Norwich Union, which represented \$19.3 million, or 10.6%, of our total revenues in the year ended December 31, 2008 and \$20.6 million, or 13.6%, of our total revenues for the year ended December 31, 2007, under a framework agreement and work orders generated by this agreement. The framework agreement expires in February 2012. In July 2008, we entered into a Deed of Settlement setting forth certain amendments that will be made to the framework agreement. On July 10, 2008, Norwich Union exercised its pre-existing option to purchase the shares of NCOP by paying us an amount that approximates the net asset value of NCOP. The purchase closed on August 11, 2008. For the years ended December 31, 2008, 2007 and 2006, NCOP is reported as a discontinued operation.

Contracts with BPO clients representing approximately 10.0% (excluding any client contracts with automatic renewal clauses) of our total revenues for the year ended December 31, 2008 will expire prior to December 31, 2009, while the remainder of our outsourcing services contracts expire in more than one year or do not have specified initial terms and remain in effect until terminated or until there are no active work orders or engagement schedules under such contracts.

We derived revenues from twenty-three and thirty-eight new clients for our services in the years ended December 31, 2008 and 2007, respectively. Although we are increasing and diversifying our customer base, we expect in the near future that a significant portion of our revenues will continue to be contributed by a limited number of large clients.

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

Revenues also include amounts representing reimbursable expenses that are billed to and reimbursed by our clients and typically include telecommunication and travel-related costs. The amount of reimbursable expenses that we incur, and any resulting revenues, can vary significantly from period to period depending on each client's situation and on the type of services provided. For the years ended December 31, 2008 and December 31, 2007, 6.5% and 4.7%, respectively, of our revenues represent reimbursement of such expenses.

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

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

In addition, we have also observed that prospective larger clients are entering into multi-vendor relationships with regard to their outsourcing needs. Although we have recently had certain clients consolidate their operations within a single service provider, this was done after a period in which the client maintained

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relationships with multiple vendors and we believe the trend toward multi-vendor relationships will continue. A multi-vendor relationship allows a client to obtain optimal pricing and other contract terms from each vendor, which can result in significantly reduced operating margins from the provision of services to such client. To the extent our large clients expand their use of multi-vendor relationships, our operating margins may be reduced with regard to such clients.

### Expenses

#### *Cost of Revenues*

Our cost of revenues primarily consists of:

- employee costs, which include salary, retention and other compensation expenses; recruitment and training costs; non-cash amortization of stock compensation expense; and traveling and lodging costs; and
- costs relating to our facilities and communications network, which include telecommunication and IT costs; facilities and customer management support; operational expenses for our outsourcing centers; and rent expenses.

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

We expect our cost of revenues to continue to increase as we continue to add professionals in India, the Philippines and the United States to service additional business, in particular as our transformation services business grows and as wages continue to increase in India. In particular, we expect training costs to continue to increase as we continue to add staff to service new clients. There is significant competition for professionals with skills necessary to perform the services we offer to our clients. As our existing competitors continue to grow, and as new competitors enter the market, we expect competition for skilled professionals in each of these areas to continue to increase, with corresponding increases in our cost of revenues to reflect increased compensation levels for such professionals. We also expect our cost of revenues to increase due to employee turnover resulting in higher recruitment and training costs.

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

We also expect cost of revenues to increase when we add new operations centers due to increases in telecommunication and rent expenses and other facilities operating costs. In particular, we have established a

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new 900-workstation operations center in Pasay City, Philippines, which became operational in April 2008. As we increase the amount of physical infrastructure available to perform our operations, we expect that utilization will decrease and this will have a negative impact on our operating margin.

The India Finance Act, 2007 has imposed additional taxes on leased real estate. As a result, in the future we may decide to purchase real estate in India instead of leasing it, which is likely to increase our initial cash outflow in connection with any expansion of our operations centers in India.

### *SG&A Expenses*

Our general and administrative expenses are comprised of expenses relating to salaries of senior management and other support personnel, legal and other professional fees, telecommunications, utilities and other miscellaneous administrative costs. Selling and marketing expenses primarily consist of salaries of sales and marketing and strategic account management personnel, client relationship management, travel and brand building. We expect that sales and marketing expenses will continue to increase as we invest heavily in our front-end sales and strategic account management functions to better serve our clients. We also expect our costs to increase as we continue to strengthen our back-end support and enabling functions and invest in leadership development, performance management and training programs. SG&A expenses also include non-cash amortization of stock compensation expense related to our issuance of equity awards to senior management, members of our board of directors and advisory board, other support personnel and consultants.

### *Depreciation and Amortization*

Depreciation and amortization pertains to depreciation and amortization of our tangible assets, including network equipment, cabling, computers, office furniture and equipment, motor vehicles and leasehold improvements and intangible assets. Amortization of intangible assets acquired is part of depreciation and amortization. As we add facilities, including our new 900-workstation operations center in Pasay City, Philippines, which became operational in April 2008, we expect that depreciation expense will increase, reflecting additional investments in equipment such as desktop computers, servers and other infrastructure.

## Foreign Exchange

### *Exchange Rates*

We report our financial results in U.S. dollars and a substantial portion of our total revenues is earned in U.K. pounds sterling. Accordingly, our results of operations are adversely affected if the U.K. pound sterling depreciates against the U.S. dollar. Although substantially all of our revenues are denominated in U.S. dollars or U.K. pounds sterling (56.4% and 42.8%, respectively, for the year ended December 31, 2008 as compared to 54.0% and 45.7%, respectively for the year ended December 31, 2007), most of our expenses (64.3% in the year ended December 31, 2008 and 65.1% in the year ended December 31, 2007) were incurred and paid in Indian rupees. The exchange rates among the Indian rupee, the U.K. pound sterling and the U.S. dollar have changed substantially in recent years and may fluctuate in the future. The results of our operations could be substantially impacted as the Indian rupee appreciates or depreciates against the U.S. dollar or the U.K. pound sterling.

### *Currency Regulation*

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

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ExlService Holdings and Inductis receive payments under most of our client contracts and are invoiced by Exl India and Inductis India, as applicable, in respect of services that Exl India and Inductis India, as applicable, provide to our clients under these contracts. Exl India and Inductis India hold the foreign currency they receive, primarily from ExlService Holdings and Inductis, in an export earners foreign currency account. All foreign exchange requirements, including import of capital goods, expenses incurred during foreign traveling of employees and discharge of foreign exchange can be met using the foreign currency in that account. As and when funds are required in India, such funds are transferred to an ordinary Indian rupee account.

### Income Taxes

The India Finance Act, 2000 provides Exl India and Inductis India with a ten-year holiday from Indian corporate income taxes as an entity exporting IT services from designated software technology parks and export processing zones in India. The India Finance Act, 2000 phases out the tax holiday over a ten-year period from fiscal 2000 through fiscal 2009. Accordingly, facilities established in India on or before March 31, 2000 have a ten-year tax holiday, new facilities established on or before March 31, 2001 have a nine-year tax holiday and so forth until March 31, 2009. The Indian government has enacted legislation in fiscal year 2008 extending the tax holiday until March 31, 2010. Exl India and Inductis India provides services from its wholly owned, export oriented units situated in Noida, Gurgaon and Pune. The income derived from the services rendered from these facilities is not subject to taxes in India until April 1, 2010.

As a result of the tax holiday, our outsourcing services operations have been subject to relatively lower tax liabilities. For example, we recognized lower income tax expense with respect to our foreign operations for the year ended December 31, 2008 as a result of the tax holiday, compared to approximately \$5.5 million that we would have incurred if the tax holiday had not been available for that period (without accounting for double taxation treaty set-offs). When our tax holiday expires or terminates, our tax expense will materially increase.

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

In May 2007, the Government of India adopted the Indian Finance Act, 2007, that imposed MAT on Indian companies that benefit from a tax holiday with effect from April 1, 2007. Any MAT paid by us can be used as a credit against corporate income taxes payable by us after expiry of the tax holiday for up to seven years, subject to the satisfaction of certain conditions. In accordance with SFAS No. 109, a deferred tax asset of \$2.1 million has been recognized as of December 31, 2008.

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

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U.S. and Indian transfer pricing regulations require that any international transaction involving associated enterprises be at an arm's-length price. Transactions among our subsidiaries and the Company may be required to satisfy such requirements. Accordingly, we determine the pricing among our associated enterprises on the basis of detailed functional and economic analysis involving benchmarking against transactions among entities that are not under common control. Based on the analysis, we had made certain changes to our transfer pricing agreements with effect from April 2007. If the applicable income tax authorities review any of our tax returns and determine that the transfer price applied was not appropriate, we may incur increased tax liabilities, including accrued interest and penalties. We are currently involved in disputes with Indian tax authorities over the application of some of our transfer pricing policies. We have received six assessment orders from the Indian tax authorities with respect to their audit of certain of our subsidiaries. The Indian tax authorities are examining income tax returns for other tax years. The details of the assessment orders as of December 31, 2008 are as below:

<u>Entity</u>	<u>Tax Year</u>	<u>Issue</u>	<u>Amount Demanded</u>	<u>Amount Deposited</u>
Exl India	2003-04	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. in the 2003-04 tax year was not appropriate and disallows certain expenses claimed as tax deductible by EXL India.	\$1.9 million	\$ 1.9 million
Exl India	2004-05	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. for the 2004-05 tax year was not appropriate and disallows certain expenses claimed as tax deductible by EXL India.	\$2.0 million	\$ 2.0 million
Exl India	2005-06	The assessment order alleges that the transfer price we applied to transactions between EXL India and EXL Inc. for the 2005-06 tax year was not appropriate and disallows certain expenses claimed as tax deductible by EXL India.	\$5.0 million	\$ —
Exl Inc.	2003-04	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$3.0 million	\$ 1.4 million
Exl Inc.	2004-05	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$0.1 million	\$ 0.1 million
Exl Inc.	2005-06	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$0.7 million	\$ 0.4 million

Based on advice from our Indian tax advisors, the facts underlying our position and our experience with these types of assessments, we believe that the probability of loss is remote and have accordingly not accrued any amount with respect to these matters in our consolidated financial statements. We do not expect any impact from these assessments on our future income tax expense. We are subject to U.S. income taxes on the profits we recognize in the United States. We have deposited the entire amount demanded by the Indian tax authorities with respect to the assessment orders received by Exl India for the 2003-04 and 2004-05 tax years and partial amounts with respect to the assessment orders received by Exl Inc. Subsequent to December 31, 2008, we have reached agreement with the Indian tax authorities for a deposit of approximately \$1.6 million with respect to the assessment order received by Exl India for the 2005-06 tax years, of which we have deposited \$0.8 million to date and expect to deposit the remainder in the near future. There is a likelihood that we might receive similar orders for other years until the above disputes are resolved.

### Inductis Acquisition

On July 1, 2006, we completed the Inductis acquisition. Inductis is a provider of research and analytics services. The Inductis acquisition has expanded the types and sophistication of the research and analytics services

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we offer. We paid approximately \$12.2 million on the closing date in the form of \$3.0 million in cash (including amounts paid for working capital adjustments), the issuance of 1,049,962 shares of our common stock after withholding in respect of taxes and \$0.9 million in transaction costs, and paid a \$0.4 million bonus in January 2007. We also assumed \$4.3 million of Inductis debt, which we repaid in full on September 26, 2006. For the period ended December 31, 2006, Inductis' profit adjusted earnout revenue (which amount is defined in the Inductis acquisition agreement to equal either its revenue or a lower amount if certain profit margin targets are not achieved as set forth in the Inductis acquisition agreement) was equal to \$26.6 million dollars. As a result, per the terms of the Inductis acquisition agreement, we issued an additional 257,273 shares of our common stock worth approximately \$5.4 million to the former holders of Inductis common stock in satisfaction of some of our earnout payment obligations under that agreement and 19,509 shares of restricted stock previously granted to the former holders of Inductis common stock have been earned based on the achievement of certain performance-based criteria and will vest over a three-year period. There are no further payments due to Inductis based on Inductis' profit adjusted earnout revenue.

### **Critical Accounting Policies**

We consider the policies discussed below to be critical to an understanding of our consolidated financial statements, as their application places the most significant demands on management's judgment regarding matters that are inherently uncertain. These policies include revenue recognition, estimating tax liabilities, stock-based compensation, derivative instruments and pension plan liabilities. These accounting policies and the associated risks are set out below. Future events may not develop exactly as forecast, and estimates routinely require adjustment.

#### ***Revenue Recognition***

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

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

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



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

The Company accrues for revenue and receivables for services rendered between the last billing date and the balance sheet date.

### *Income Taxes*

As part of the process of preparing our consolidated financial statements, we estimate our income taxes in each of the jurisdictions in which we operate. Tax estimates include decisions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. Based on our evaluation of our tax position, we believe we have adequately accrued for probable exposures as of December 31, 2008. To the extent we are able to prevail in matters for which accruals have been established or are required to pay amounts in excess of our reserves, our effective tax rate in a given financial statement period may be materially impacted.

We recognize deferred tax assets and liabilities for future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize the effect on deferred tax assets and liabilities of a change in tax rates in income in the period that includes the enactment date. We determine if a valuation allowance is required or not on the basis of an assessment of whether it is more likely than not that a deferred tax asset will be realized. At December 31, 2008, we performed an analysis of the deferred tax asset valuation allowance on our Indian subsidiaries and concluded that a valuation allowance offsetting certain deferred tax assets be recorded, on the basis that it is more likely than not that there will not be future taxable income to realize the deferred tax assets. We perform this assessment at the end of each reporting period. See Note 10, "Income Taxes," in the notes to our consolidated financial statements for the year ended December 31, 2008.

### *Stock-based Compensation*

Significant factors considered in determining the fair value of stock awards are as follows. We estimate the expected term of options granted by taking the average of the vesting term and the contractual term of the option, as illustrated in SAB 107 until December 31, 2007. Effective January 1, 2008, the estimated expected term of options granted has been revised based on historical experience since October 2006, which is representative of the expected term of the options. Effective January 1, 2008, the volatility has been calculated based on the volatility of our common stock and the volatility of stocks of comparative companies. Prior to this, volatility was calculated based on the volatility of stocks of comparative companies. The risk-free interest rate that we use in the option valuation model is based on U.S. treasury zero-coupon bonds with a remaining term similar to the expected term of the options. We do not anticipate paying any cash dividends in the foreseeable future and therefore use an expected dividend yield of zero in the option valuation model. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. 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.

### *Derivative Instruments*

In the normal course of business, we actively look to mitigate the exposure of foreign currency market risk by entering into various hedging instruments, authorized under our policies, with counterparties that are highly rated financial institutions. Our primary exchange rate exposure is with the U.K. pound sterling and the Indian rupee. We use derivative instruments for the purpose of mitigating the underlying exposure from foreign



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currency fluctuation risks associated with forecasted transactions denominated in certain foreign currencies and to minimize earnings and cash flow volatility associated with the changes in foreign currency exchange rates, and not for speculative trading purposes. We also hedge anticipated transactions that are subject to foreign exchange exposure with foreign exchange contracts that are designated effective and qualify as cash flow hedges, under SFAS No. 133. Changes in the fair value of these cash flow hedges which are deemed effective, are recorded in accumulated other comprehensive income/(loss) until the contract is settled and at that time are recognized in the consolidated statements of operations. Changes in the fair value of cash flow hedges deemed ineffective are recognized in the consolidated statement of operations. We evaluate hedge effectiveness at the time a contract is entered into as well as on an ongoing basis. Other derivatives not designated as hedging instruments under SFAS 133 consist of forward contracts that we use to hedge intercompany balances and other monetary assets or liabilities denominated in currencies other than the functional currency.

At December 31, 2008, forward exchange contracts of \$110.2 million and GBP 30.3 million were outstanding. We have evaluated the effectiveness of all our forward exchange contracts. For the years ended December 31, 2008 and 2007, net gains/(losses) from ineffective cash flow hedges included in our consolidated statements of income totaled (\$3.2) million and \$1.0 million, respectively. For the years ended December 31, 2008 and 2007, we recognized net gains from other derivatives included in our consolidated statements of income totaled \$2.5 million and \$0, respectively. For hedge contracts discontinued because the forecasted transaction is not expected to occur by the end of the originally specified period, any related derivative amounts recorded in accumulated comprehensive income are reclassified to earnings.

### *Pension Plan Liability*

We provide our employees in India with benefits under a defined benefit plan, which we refer to as the Gratuity Plan. The Gratuity Plan provides a lump sum payment to vested employees on retirement or on termination of employment in an amount based on the respective employee's salary and years of employment with us. We determine our liability under the Gratuity Plan by actuarial valuation using the projected unit credit method. Under this method, we determine our liability based upon the discounted value of salary increases until the date of separation arising from retirement, death, resignation or other termination of services. Critical assumptions used in measuring the plan expense and projected liability under the projected unit credit method include the discount rate, expected return on assets and the expected increase in the compensation rates. We evaluate these critical assumptions at least annually. We periodically evaluate and update other assumptions used in the projected unit credit method involving demographic factors, such as retirement age and turnover rate, to reflect our experience. The future mortality rates used are consistent with those published by the Life Insurance Corporation of India.

The discount rate enables us to state expected future cash flows at a present value on the measurement date. The discount rate we use is equal to the yield on high quality fixed income investments in India at the measurement date. A lower discount rate increases the present value of benefit obligations and therefore increases gratuity expense. Since our Gratuity Plan is unfunded, we have not assumed any returns on assets.

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### Results of Operations

The following table summarizes our results of operations:

	Year ended December 31,		
	2008	2007	2006
	(in millions)		
Total revenues(1)	\$181.7	\$152.0	\$98.7
Cost of revenues (exclusive of depreciation and amortization)(2)	112.4	100.1	62.6
Gross profit	69.3	51.9	36.1
Operating expenses:			
General and administrative expenses(3)	31.1	28.7	18.7
Selling and marketing expenses(3)	11.3	9.2	4.7
Depreciation and amortization expenses(4)	11.2	9.2	7.1
Total operating expenses	53.6	47.1	30.5
Income from continuing operations	15.7	4.8	5.6
Other income/(expense):			
Foreign exchange gain/(loss)	(9.3)	7.6	(0.5)
Interest and other income	3.5	4.3	1.9
Interest expense	(0.1)	(0.1)	(0.6)
Income from continuing operations before income taxes	9.8	16.6	6.4
Income tax benefit	(1.3)	(1.0)	(0.3)
Income from continuing operations	11.1	17.6	6.7
Income from discontinued operations, net of taxes	3.3	9.4	7.3
Net Income	14.4	27.0	14.0
Dividend and accretion on preferred stock	—	—	(0.6)
Net income to common stockholders	<u>\$ 14.4</u>	<u>\$ 27.0</u>	<u>\$13.4</u>

- (1) In accordance with GAAP, we include the amount of telecommunications and travel-related costs that are billed to and reimbursed by our clients in our revenues.
- (2) Cost of revenues includes \$1.1 million, \$1.1 million and \$0.5 for the years ended December 31, 2008, 2007 and 2006, respectively, as non-cash amortization of stock compensation expense relating to the issuance of equity awards to employees directly involved in providing services to our clients as described in Note 11 to our consolidated financial statements. Cost of revenues excludes depreciation and amortization related to fixed assets.
- (3) General and administrative expenses and selling and marketing expenses include \$4.2 million, \$3.2 million and \$1.5 million for the years ended December 31, 2008, 2007 and 2006, respectively, as non-cash amortization of stock compensation expense relating to the issuance of equity awards to our non-operations staff as described in Note 11 to our consolidated financial statements.
- (4) Depreciation and amortization includes \$0.5 million, \$1.6 million and \$1.2 million for the years ended December 31, 2008, 2007 and 2006, respectively, of amortization of intangibles as described in Note 4 to our consolidated financial statements.

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

Our results of operations for the year ended December 31, 2008 were negatively impacted by losses recorded as a result of the movement of the Indian rupee against the U.S. dollar relative to our hedged position and due to lower than planned utilization rates attributable to our recent expansion in the Philippines. This was

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partly offset by increases in outsourcing and transformation services revenues. Exchange rate fluctuations will have a positive or a negative impact on our net income depending on the direction of fluctuation.

**Revenues** . Revenues increased 19.5% from \$152.0 million for the year ended December 31, 2007 (including \$7.1 million of reimbursable expenses) to \$181.7 million for the year ended December 31, 2008 (including \$11.8 million of reimbursable expenses). The overall increase of \$29.7 million was attributable to an increase of \$17.9 million in outsourcing services and \$11.8 million in transformation services and is net of a decrease of \$6.1 million due to the appreciation of the U.S. dollar with respect to the U.K. pound sterling. Revenue increases from new clients were \$0.5 million in outsourcing services and \$3.8 million in transformation services during the year ended December 31, 2008. Revenue increases from existing clients were attributable to volume increases within existing processes and the addition of 91 new processes during 2008.

**Cost of Revenues** . Cost of revenues increased 12.3% from \$100.1 million for the year ended December 31, 2007 to \$112.4 million for the year ended December 31, 2008. Salaries and personnel expenses for the Company increased from \$69.9 million for the year ended December 31, 2007 to \$78.4 million for the year ended December 31, 2008 as a result of an increase in headcount and salary levels. The operating costs related to our operations centers increased from \$17.0 million for the year ended December 31, 2007 to \$20.3 million for the year ended December 31, 2008, primarily reflecting our increased workforce and increased operating capacity. Cost of revenues decreased by \$5.3 million due to the depreciation of the Indian rupee with respect to the U.S. dollar. Cost of revenues includes \$1.1 million and \$1.1 million for the years ended December 31, 2008 and December 31, 2007, respectively, for non-cash amortization of stock compensation expense relating to the issuance of equity awards to employees directly involved in providing services to our clients. As a percentage of revenues, cost of revenues decreased from 65.8% for the year ended December 31, 2007 to 61.9% for the year ended December 31, 2008.

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

**SG&A Expenses** . SG&A expenses increased 12.0% from \$37.9 million for the year ended December 31, 2007 to \$42.4 million for the year ended December 31, 2008. General and administrative expenses increased 8.3% from \$28.7 million for the year ended December 31, 2007 to \$31.1 million for the year ended December 31, 2008 and selling and marketing expenses increased 23.7% from \$9.2 million for the year ended December 31, 2007 to \$11.3 million for the year ended December 31, 2008. Salary and personnel expenses included in SG&A increased from \$24.5 million for the year ended December 31, 2007 to \$27.8 million for the year ended December 31, 2008 primarily due to the addition of non-operations staff. Overall general and administrative expenses increased by \$1.1 million due to the addition of a new operations center in the Philippines and costs associated with setting up the center. SG&A expenses include \$4.2 million and \$3.2 million for the years ended December 31, 2008 and December 31, 2007, respectively, of non-cash amortization of stock compensation expense relating to our issuance of stock options to our non-operations staff. We expect our SG&A expenses to increase as we add significant additional sales and marketing staff in the United States and the United Kingdom. As a percentage of revenues, SG&A expenses decreased marginally from 24.9% for the year ended December 31, 2007 to 23.4% for the year ended December 31, 2008.

**Depreciation and Amortization** . Depreciation and amortization increased 21.1% from \$9.2 million for the year ended December 31, 2007 to \$11.2 million for the year ended December 31, 2008. This increase was due to expansion of our infrastructure, including our new operations center in Pasay City, Philippines, which became operational in April 2008. However, this was partially offset by a decrease in amortization of intangibles. As we add more operations centers, we expect that depreciation expense will increase to reflect the additional investment in equipment and operations centers necessary to meet service requirements.

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**Income from Operations** . Income from operations increased 225.4% from \$4.8 million for the year ended December 31, 2007 to \$15.7 million for the year ended December 31, 2008. As a percentage of revenues, income from operations increased from 3.2% for the year ended December 31, 2007 to 8.6% for the year ended December 31, 2008. The increase in income from operations was primarily the result of an increase in gross profit of \$17.4 million, offset by an increase in operating expenses of \$6.5 million.

**Other Income/(expense)** . Other income is comprised of foreign exchange gains and losses, interest income and interest expense. Other income decreased significantly from \$11.8 million for the year ended December 31, 2007 to (\$5.9) million for the year ended December 31, 2008 as a result of a significant increase in net foreign exchange losses attributable to movement of the Indian rupee against the U.S. dollar and the U.K. pound sterling relative to our hedged position.

**Provision for Income Taxes** . Provision for income taxes decreased from a benefit of \$1.0 million for the year ended December 31, 2007 to a benefit of \$1.3 million for the year ended December 31, 2008. The effective rate of taxes has decreased from a benefit of 5.9% for the year ended December 31, 2007 to a benefit of 13.7% for the year ended December 31, 2008. This is primarily due to lower income as a result of the increase in foreign exchange losses and changes in the geographic distribution of our income.

**Income from continuing operations** . Income from continuing operations decreased from \$17.6 million for the year ended December 31, 2007 to \$11.1 million for the year ended December 31, 2008 due to a significant increase in foreign exchange losses attributable to the movement of the Indian rupee against the U.S. dollar and the U.K. pound sterling relative to our hedged position, partially offset by higher income from operations. As a percentage of revenues, income from continuing operations decreased from 11.6% for the year ended December 31, 2007 to 6.1% for the year ended December 31, 2008.

### **Year Ended December 31, 2007 Compared to Year Ended December 31, 2006**

As a result of the Inductis acquisition on July 1, 2006, our results of operations for the year ended December 31, 2007 are not comparable to the year ended December 31, 2006. Our results of operations for the year ended December 31, 2007 are impacted by an increase in revenues attributable to the increase in outsourcing and transformation services revenues, the Inductis acquisition and changes in exchange rates of U.K. pounds sterling with respect to U.S. dollars. As we increase the amount of physical infrastructure available to perform our operations, we expect that utilization will continue to decrease, which will have a negative impact on our operating margin. Also, exchange rates fluctuations will have a positive or a negative impact on our net income depending on the direction of fluctuation.

**Revenues** . Revenues increased 54.1% from \$98.7 million for the year ended December 31, 2006 (including \$4.4 million of reimbursable expenses) to \$152.0 million for the year ended December 31, 2007 (including \$7.1 million of reimbursable expenses). The overall increase of \$53.3 million was attributable to an increase of \$45.4 million in outsourcing services and \$7.9 million in transformation services and is including an increase of \$4.4 million due to the depreciation of the U.S. dollar with respect to the U.K. pound sterling. Revenue increases from new clients were \$9.2 million in outsourcing services and \$2.9 million in transformation services during the year ended December 31, 2007. Revenue increases from existing clients were attributable to volume increases within existing processes and the addition of approximately 68 new processes. Revenues for the year ended December 31, 2007 are higher by \$3.3 million as compared to the year ended December 31, 2006 for transformation services due to the inclusion of Inductis from July 1, 2006, the date of acquisition.

**Cost of Revenues** . Cost of revenues increased 59.9% from \$62.6 million for the year ended December 31, 2006 to \$100.1 million for the year ended December 31, 2007. Cost of revenues for the year ended December 31, 2007 are higher by \$4.8 million as compared to the year ended December 31, 2006 due to the inclusion of Inductis from July 1, 2006, the date of acquisition. Salaries and personnel expenses for the Company increased from \$43.7 million in the year ended December 31, 2006 to \$69.9 million in the year ended December 31, 2007

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as a result of an increase in headcount and salary levels. The operating costs relating to our operations centers increased from \$12.3 million for the year ended December 31, 2006 to \$17.0 million for the year ended December 31, 2007, primarily reflecting our increased workforce and increased operating capacity. Cost of revenues includes \$1.1 million and \$0.5 million for the years ended December 31, 2007 and December 31, 2006, respectively, for non-cash amortization of stock compensation expense relating to the issuance of equity awards to employees directly involved in providing services to our clients. As a percentage of revenues, cost of revenues increased from 63.5% for the year ended December 31, 2006 to 65.8% for the year ended December 31, 2007.

**Gross Profit** . Gross profit increased 44.0% from \$36.1 million for the year ended December 31, 2006 to \$51.9 million for the year ended December 31, 2007. The increase in gross profit is primarily the result of an increase in revenue of \$53.4 million, offset by an increase in cost of revenues by \$37.5 million. The increase in gross profit does not represent a trend in our results of operations. Gross profit as a percentage of revenues decreased marginally from 36.5% for the year ended December 31, 2006 to 34.2% for the year ended December 31, 2007.

**SG&A Expenses** . SG&A expenses increased 61.7% from \$23.4 million for the year ended December 31, 2006 to \$37.9 million for the year ended December 31, 2007. General and administrative expenses increased 53.6% from \$18.7 million for the year ended December 31, 2006 to \$28.7 million for the year ended December 31, 2007 and selling and marketing expenses increased 93.5% from \$4.7 million for the year ended December 31, 2006 to \$9.2 million for the year ended December 31, 2007. SG&A expenses for the year ended December 31, 2007 are higher by \$3.4 million as compared to the year ended December 31, 2006 due to the inclusion of Inductis from July 1, 2006, the date of acquisition. Salary and personnel expenses included in SG&A increased from \$16.1 million for the year ended December 31, 2006 to \$24.5 million for the year ended December 31, 2007 primarily due to the addition of corporate and sales and marketing staff in the United States. SG&A expenses also increased by \$1.9 million due to increase in audit and other professional fees incurred as a result of becoming a public company. SG&A expenses include \$3.2 million and \$1.5 million for the year ended December 31, 2007 and the year ended December 31, 2006, respectively, of non-cash amortization of stock compensation expense relating to our issuance of stock options to our non-operations staff. We expect our SG&A expenses to increase as we selectively expand our sales and marketing staff in the United States and the United Kingdom. As a percentage of revenues, SG&A expenses increased from 23.8% for the year ended December 31, 2006 to 24.9% for the year ended December 31, 2007.

**Depreciation and Amortization** . Depreciation and amortization increased 29.8% from \$7.1 million for the year ended December 31, 2006 to \$9.2 million for the year ended December 31, 2007. The increase was primarily due to the amortization of intangibles acquired from Inductis. As we add facilities, we expect that depreciation expense will increase, reflecting the additional investment in equipment and facilities necessary to meet customer requirements.

**Income from Operations** . Income from operations decreased 12.9% from \$5.5 million for the year ended December 31, 2006 to \$4.8 million for the year ended December 31, 2007. Income from operations decreased due to a significant increase in SG&A expenses due to the addition of corporate and sales and marketing staff in the United States, as well as an increase in audit and other professional fees incurred as a result of becoming a public company. As a percentage of revenues, income from operations decreased from 5.6% for the year ended December 31, 2006 to 3.2% for the year ended December 31, 2007.

**Other Income** . Other income is comprised of foreign exchange gains and losses, interest income and interest expense. Other income increased significantly from \$0.8 million for the year ended December 31, 2006 to \$11.8 million for the year ended December 31, 2007 as a result of a significant increase in foreign exchange gains by \$8.1 million, an increase in interest income by \$2.4 million due to higher cash balances and a reduction in interest expense by \$0.5 million due to the repayment of our preferred stock in October and November 2006.

**Provision for Income Taxes** . Provision for income taxes decreased from a tax benefit of \$0.4 million for the year ended December 31, 2006 to a tax benefit of \$1.0 million for the year ended December 31, 2007. The

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effective rate of taxes decreased marginally from a benefit of 5.7% for the year ended December 31, 2006 to a benefit of 5.9% for the year ended December 31, 2007. This is due to changes in the geographic distribution of our income and a change in the transfer pricing agreements among ExlService Holdings and Exl India. We determine the pricing among our associated enterprises on the basis of detailed functional and economic analysis involving benchmarking against transactions among entities that are not under common control. Based on our analysis, we made certain changes to the transfer pricing agreements with effect from April 2007. See Note 10, "Income Taxes," to our consolidated financial statements for details.

**Dividends and Accretion on Preferred Stock.** Dividends and accretion on preferred stock were \$0 for the year ended December 31, 2007 compared to \$0.6 million for the year ended December 31, 2006, reflecting the repayment of our preferred stock in October and November 2006.

**Income from continuing operations.** Income from continuing operations increased from \$6.7 million for the year ended December 31, 2006 to \$17.6 million for the year ended December 31, 2007 due to increased revenue, the impact of exchange rates after considering hedge gains and better capacity and staff utilization. The significant increase in income from continuing operations does not represent a trend in our results of operations and will vary as we build capacity for future ramps ups and exchange rates fluctuate. As a percentage of revenues, income from continuing operations increased from 6.8% for the year ended December 31, 2006 to 11.6% for the year ended December 31, 2007.

### Liquidity and Capital Resources

At December 31, 2008, we had \$112.2 million in cash and cash equivalents on hand.

In October 2006, we consummated an initial public offering of our common stock. In the offering, we issued and sold 5,750,000 shares of our common stock at an initial offering price of \$13.50 per share, resulting in gross proceeds of \$77.6 million and net proceeds of approximately \$69.8 million after deducting underwriting discounts and commissions of approximately \$5.4 million and related offering expenses of approximately \$2.4 million. We used approximately \$6.7 million of the net proceeds from the initial public offering to repurchase all of our outstanding shares of preferred stock and approximately \$5.8 million to repay all outstanding senior promissory notes payable to certain stockholders.

Cash flows provided by operating activities from continuing operations increased from \$13.7 million in the year ended December 31, 2007 to \$30.3 million in the year ended December 31, 2008. Generally, factors that affect our earnings—for example, 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 working capital and cash flows provided by operating activities can be significant. The increase in cash flows provided by operations is predominantly due to the increase in net income adjusted for non-cash items by \$2.1 million and changes in working capital by \$14.5 million. Changes in working capital is due to inflows from reduction in accounts receivable by \$18.6 million, deferred revenue by \$1.0 million and increase in accrued expenses and other current liabilities by \$2.6 million, partially offset by outflows due to increase in prepaid and other current assets by \$5.2 million and payment of accounts payable \$3.0 million.

In general, our relationships with our outsourcing services clients, which services provide the majority of our revenues and cash flow from operations, are long-term, with our agreements with such clients typically having initial terms of between three and five years. As a result, our revenues and cash flows with regard to these clients are generally not subject to variability due to changes in pricing terms on a year to year basis. However, to the extent the volume of services we provide to a client increases or decreases, our total revenues and cash flow from such client will correspondingly increase or decrease on a period to period basis.

A significant portion of our revenues and our cash flow from operating activities are dependent on several large clients, in particular Centrica and Norwich Union. To the extent there are changes in our pricing rates or



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models with respect to these clients in connection with our planned renewals of our agreements with each of these clients, our revenues and cash flow from operating activities will be correspondingly affected. In particular, were we to lose one or both of these clients, our revenues and cash flows would be materially affected. Furthermore, as noted previously, trends towards multi-vendor relationships and transaction-based pricing models in our industry could impact our cash flows from current and potential large clients in future periods.

Cash used in investing activities increased from \$9.0 million in the year ended December 31, 2007 to \$16.0 million in the year ended December 31, 2008. The increase is primarily the result of increased capital expenditures including \$4.8 million for our new operations center in the Philippines, payment made towards purchase consideration of \$2.2 million for an acquisition, partially offset by the proceeds from sale of our discontinued operations of \$1.0 million.

Cash flows from financing activities decreased from an inflow of \$2.0 million in the year ended December 31, 2007 to an outflow of \$0.2 million in the year ended December 31, 2008. The decrease is primarily due to lower proceeds from the exercise of stock options by \$1.0 million in the year ended December 31, 2008 as compared to the year ended December 31, 2007 and recognition of an excess tax benefit on exercise of stock options of \$0.8 million in the year ended December 31, 2007.

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 have made significant capital investments, primarily related to new facilities. Capital expenditures we make to meet client needs represent primarily leasehold improvements to build out facilities, telecommunications equipment, and computer hardware and software we purchase in connection with managing client operations. We incurred approximately \$14.8 million of capital expenditures in 2008. We expect to incur capital expenditures of approximately \$15 million to \$20 million in 2009 primarily to meet the growth requirements of our clients, including expanding our facilities in India as well as to improve our internal technology. The timing and volume of such capital expenditures in the future will be affected by new contracts we may enter into or the expansion of our existing contracts. In addition, we expect to repurchase shares of our common stock from time to time until November 2009. Through December 31, 2008, we had repurchased an aggregate of approximately \$0.3 million of our previously announced program to repurchase up to \$10.0 million of our common stock.

In addition, in connection with the tax assessment orders issued against EXL India and Exl Inc. we may be required to deposit additional amounts with respect to the assessment orders received by us and for similar orders for subsequent years that may be received by us.

We intend to use the remaining net proceeds from our October 2006 initial public offering for working capital and general corporate purposes. We anticipate that we will continue to rely upon cash from operating activities and remaining proceeds from our October 2006 initial public offering to finance our capital expenditures and working capital needs. We believe that cash flow from operations and the remaining net proceeds from our October 2006 initial public offering will be sufficient to meet our ongoing capital expenditure, working capital and other cash needs over the next two years. If we have significant growth through acquisitions or require additional operating facilities to service customer contracts, we may need to obtain additional financing.

### Off-Balance Sheet Arrangements

As of December 31, 2008 and December 31, 2007, we had no off-balance sheet arrangements or obligations.

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### Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2008:

	Payments Due by Period (in millions)				Total
	Less than	1-3	4-5	After 5	
	1 year	years	years	years	
Capital leases	\$ 0.1	\$ 0.2	\$ —	\$ —	\$ 0.3
Operating leases	2.0	3.2	1.2	0.1	6.5
Purchase obligations	2.8	—	—	—	2.8
Other obligations(a)	0.5	0.8	0.8	0.8	2.9
Total contractual cash obligations	<u>\$ 5.4</u>	<u>\$ 4.2</u>	<u>\$ 2.0</u>	<u>\$ 0.9</u>	<u>\$12.59</u>

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

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

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

### Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. FSP 157-2 "*Partial Deferral of the Effective Date of Statement 157*," deferred the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008. The implementation of SFAS No. 157 for financial assets and financial liabilities, effective January 1, 2008, did not have a material impact on our consolidated financial position, results of operations or cash flows. We are currently evaluating the impact of SFAS No. 157 on non-financial assets and non-financial liabilities, but do not expect the adoption of SFAS No. 157 to have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2007, FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115*" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other eligible items at fair value. SFAS No. 159 was effective as of January 1, 2008. The implementation of SFAS No. 159 did not have a material impact on our consolidated financial position, consolidated statements of income or cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "*Business Combinations*" ("SFAS No. 141R"). The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration,



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the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition-related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited.

In March 2008, the FASB issued SFAS No. 161, "*Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*" ("SFAS No. 161"). SFAS No. 161 amends and expands the disclosures required by SFAS No. 133 so that they provide an enhanced understanding of (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and (3) how derivative instruments affect an entity's financial position, financial performance and cash flows. SFAS No. 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently evaluating the impact of SFAS No. 161 and therefore had not adopted SFAS No. 161 as of December 31, 2008.

In April 2008, the FASB issued FASB Staff Position No. 142-3, "*Determination of the Useful Life of Intangible Assets*" ("FSP 142-3"). FSP 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB Statement No. 142, "*Goodwill and Other Intangible Assets*." This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008 with early adoption prohibited.

### Forward Looking Statements

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

- our dependence on a limited number of clients in a limited number of industries;
- worldwide political, economic and business conditions;
- negative public reaction in the United States or elsewhere to offshore outsourcing;
- fluctuations in our earnings;
- our ability to attract and retain clients;
- restrictions on immigration;
- our ability to hire and retain enough sufficiently trained employees to support our operations;
- our ability to grow our business or effectively manage growth and international operations;

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- increasing competition in our industry;
- telecommunications or technology disruptions;
- fluctuations in exchange rates between the currencies in which we receive our revenues and the currencies in which we incur our costs;
- regulatory, legislative and judicial developments, including the withdrawal of governmental fiscal incentives;
- technological innovation;
- political or economic instability in our operating geographies;
- our ability to successfully consummate or integrate strategic acquisitions, and
- adverse outcome of our disputes with the Indian tax authorities.

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

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

### **ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk**

#### ***General***

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

Our exposure to market risk is a function of our expenses and revenue generating activities in foreign currencies. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss. Most of our exposure to market risk arises out of our foreign currency accounts receivable. Pursuant to our investment policy, our surplus funds are kept as cash or cash equivalents and are invested in highly-rated commercial paper and money market accounts to reduce our exposure to market risk with regard to these funds.

#### ***Risk Management Procedures***

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

#### ***Components of Market Risk***

***Exchange Rate Risk.*** The functional currency of ExlService Holdings, and our subsidiaries Exl Inc., Inductis LLC and Inductis Inc., is the U.S. dollar. The functional currency of Exl India, Inductis India and Exl Support Services Pvt. Ltd., which we refer to as ESSPL, is the Indian rupee. The functional currency of Exl UK

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is the U.K. pound sterling. The functional currency of Inductis (Singapore) Pte Limited is the Singapore dollar. The functional currency of Exl Philippines is the Philippine Peso. In each case, the functional currency is the currency of the primary economic environment in which that entity operates. Monetary assets and liabilities in foreign currency are translated into functional currency at the rate of exchange prevailing on the related balance sheet dates. Transactions in foreign currencies are translated into functional currency at the rate of exchange prevailing on the date of the transaction. All transaction-related foreign exchange gains and losses are recorded in the accompanying consolidated statements of operations. The assets and liabilities of subsidiaries are translated into U.S. dollars at the rate of exchange prevailing on the related balance sheet date. Resulting translation adjustments are included in the "accumulated other comprehensive income/(loss)" in our December 31, 2008 consolidated balance sheet. Revenues and expenses are translated into U.S. dollars at the exchange rates prevailing on the last business day of each month, which approximates the average monthly exchange rate.

Our exposure to market risk arises principally from exchange rate risk. Although substantially all of our revenues are denominated in U.S. dollars (56.4% in the year ended December 31, 2008) or U.K. pounds sterling (42.8% in the year ended December 31, 2008), most of our expenses (64.3% in the year ended December 31, 2008) were incurred and paid in Indian rupees. The exchange rates among the Indian rupee, U.K. pound sterling and the U.S. dollar have changed substantially in recent years and may fluctuate substantially in the future.

Our exchange rate risk primarily arises from our foreign currency revenues, expenses incurred by our foreign subsidiaries and foreign currency accounts receivable. Based upon our level of operations during the year ended December 31, 2008 and excluding any hedging arrangements that we had in place during that period, a 5.0% appreciation/depreciation in the U.K. pound sterling against the U.S. dollar would have increased/decreased revenues in the year ended December 31, 2008 by approximately \$3.4 million. Similarly, a 5.0% appreciation/depreciation in the Indian rupee against the U.S. dollar would have increased/decreased our expenses incurred and paid in Indian rupees in the year ended December 31, 2008 by approximately \$5.3 million.

We have sought to reduce the effect of Indian rupee and U.K. pound sterling (GBP) exchange rate fluctuations on our operating results by purchasing forward foreign exchange contracts to cover a substantial portion of cost incurred in our India operations. Forward exchange contracts with a notional amount of \$110.2 million and GBP30.3 million were outstanding at December 31, 2008 and of \$44.3 million and GBP29.0 million were outstanding at December 31, 2007. The forward foreign exchange contracts typically mature within twelve months, must be settled on the day of maturity and may be cancelled subject to the payment of any gains or losses in the difference between the contract exchange rate and the market exchange rate on the date of cancellation. We use these instruments as cash flow hedges and not for speculative purposes. We may not purchase contracts adequate to insulate ourselves from Indian rupee and U.K. pound sterling foreign exchange currency risks. In addition, any such contracts may not perform adequately as a hedging mechanism. We may, in the future, adopt more active hedging policies, and have done so in the past.

**Interest Rate Sensitivity.** We had cash, cash equivalents and restricted cash totaling \$112.7 million at December 31, 2008. These amounts were invested principally in a short-term investment portfolio primarily comprised of investment grade commercial paper, U.S. treasury bills, mutual funds and money market accounts. The cash and cash equivalents are held for potential acquisitions of complementary businesses or assets, working capital requirements and general corporate purposes. We do not enter into investments for trading or speculative purposes. We believe that we have no material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. The interest income from these funds will be subject to fluctuations due to changes in interest rates. Declines in interest rates would reduce future investment income. A 1.0% decrease in short term rates would reduce our interest income for the year ended December 31, 2008 by approximately \$0.6 million.

### ITEM 8. Financial Statements and Supplementary Data

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

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

None.

### ITEM 9A. Controls and Procedures.

#### *Evaluation of Disclosure Controls and Procedures*

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports the Company files under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), to allow timely decisions regarding required financial disclosure. In connection with the preparation of this Annual Report on Form 10-K, the Company's management carried out an evaluation, under the supervision and with the participation of the CEO and CFO, of the effectiveness and operation of our disclosure controls and procedures as of December 31, 2008. Based upon that evaluation, the CEO and CFO have concluded that, as of December 31, 2008, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Exchange Act of 1934 were (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management to allow timely decisions regarding disclosure.

#### **Management's Responsibility for Financial Statements**

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

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

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

#### ***Management's Annual Report on Internal Control over Financial Reporting***

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act of 1934. Those rules define internal control over financial reporting as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States;

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- provide reasonable assurance that receipts and expenditures of the Company are being made only in accordance with the authorization of management and board of directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

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

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria described in "*Internal Control—Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of the board of directors. Based on this assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2008. See Ernst and Young LLP's accompanying report on their audit of the Company's internal controls over financial reporting.

### *Changes in Internal Control over Financial Reporting*

During the year ended December 31, 2008, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 9B. Other Information.**

None.

**PART III.**

**ITEM 10. Directors and Executive Officers of the Registrant.**

*Code of Ethics.*

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

We incorporate by reference the information responsive to this Item appearing in the definitive proxy statement for our 2008 Annual Meeting of Stockholders, which we refer to as our Proxy Statement, which we intend to file with the SEC within 120 days after the fiscal year end of December 31, 2008.

**ITEM 11. Executive Compensation.**

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

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

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

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

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

**ITEM 14. Principal Accountant Fees and Services.**

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

**PART IV.**

**ITEM 15. Exhibits and Financial Statement Schedules.**

(a) 1. Financial Statements.

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

2. Financial Statement Schedules.

Financial statement schedules as of December 31, 2008 and 2007, have been omitted since they are either not required, not material or the information is otherwise included in our consolidated financial statements or the notes to our consolidated financial statements.

3. Exhibits.

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

(b) Exhibits—see Item 15(a)(3) above.

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

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

- 2.1\* Deed of Settlement, dated July 11, 2008, between the Company, Norwich Union Insurance Limited, Aviva International Holdings Limited, Aviva Global Services Singapore Private Limited, exlservice.com (India) Private Limited and Noida Customer Operations Private Limited (incorporated by reference to Exhibit 2.3 to the Quarterly Report on Form 10-Q filed on November 10, 2008).
- 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on October 25, 2006).
- 3.2 Second Amended and Restated By-laws (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on April 30, 2008).
- 4.1 Specimen Stock Certificate (incorporated by reference to Exhibit 4.1 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 4.2 Registration Rights Agreement (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on October 25, 2006).
- 10.1 Umbrella Agreement, dated as of August 26, 2004, by and among Norwich Union Customer Services (Singapore) Private Limited, ExlService Holdings, Inc., ExlService.com (India) Private Limited and Noida Customer Operations Private Limited (incorporated by reference to Exhibit 10.1 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.2 Insurance Services Framework Agreement, dated as of July 29, 2004, by and between Norwich Union Customer Services (Singapore) Private Limited and ExlService Holdings, Inc. (incorporated by reference to Exhibit 10.2 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.3 Data Protection Agreement, dated as of July 29, 2004 by and among Norwich Union Customer Services (Singapore) Private Limited, Norwich Union Insurance Limited, ExlService Holdings, Inc. and ExlService.com (India) Private Limited (incorporated by reference to Exhibit 10.4 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.4 Data Protection Agreement, dated as of August 26, 2004, by and among Norwich Union Customer Services (Singapore) Private Limited, Norwich Union Insurance Limited, Norwich Union Life Services Limited, ExlService Holdings, Inc., ExlService.com (India) Private Limited and Noida Customer Operations Private Limited (incorporated by reference to Exhibit 10.5 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).

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- 10.5 Virtual Shareholders' Agreement, dated as of August 26, 2004, by and among Norwich Union Customer Services (Singapore) Private Limited, ExlService Holdings, Inc., ExlService.com (India) Private Limited and Noida Customer Operations Private Limited (incorporated by reference to Exhibit 10.6 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.6 Confidentiality Agreement, dated as of August 26, 2004, by and among Norwich Union Customer Services (Singapore) Private Limited, Norwich Union Insurance Limited, Norwich Union Life Services Limited, ExlService Holdings, Inc., ExlService.com (India) Private Limited and Noida Customer Operations Private Limited (incorporated by reference to Exhibit 10.7 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.7 Guarantee and Indemnity, dated as of August 26, 2004, by and between Norwich Union Insurance Limited and ExlService Holdings, Inc. (incorporated by reference to Exhibit 10.8 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.8 Guarantee and Indemnity, dated as of August 26, 2004, by and between Norwich Union Life Holdings Limited and ExlService Holdings, Inc. (incorporated by reference to Exhibit 10.9 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.9 Employment Contract, as amended, effective October 3, 2006, by and between ExlService Inc. and Amit Shashank (incorporated by reference to Exhibit 10.12 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.10 Amended and Restated Employment and Non-Competition Agreement entered into by and among ExlService Holdings, Inc. and Vikram Talwar.
- 10.11 Amended and Restated Employment and Non-Competition Agreement entered into by and among ExlService Holdings, Inc. and Rohit Kapoor.
- 10.12 ExlService Holdings, Inc. 2003 India Stock Option Plan (incorporated by reference to Exhibit 10.16 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.13 ExlService Holdings, Inc. 2003 Stock Option Plan (incorporated by reference to Exhibit 10.18 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.14 ExlService Holdings, Inc. 2006 Omnibus Plan (incorporated by reference to Exhibit 10.20 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.15 ExlService Holdings, Inc. 2006 Omnibus India Subplan 1 (incorporated by reference to Exhibit 10.21 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.16 Form of Stock Option Agreement under the 2006 Omnibus India Subplan 1 (incorporated by reference to Exhibit 10.22 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.17 ExlService Holdings, Inc. Management Incentive Plan (incorporated by reference to Exhibit 10.23 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.18 Form of Restricted Stock Award Agreement under the 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.31 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.19 Form of Stock Option Agreement under the 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.32 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.20 Form of Restricted Stock Award Agreement under the 2006 Omnibus India Subplan 1 (incorporated by reference to Exhibit 10.33 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).



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- 10.21 Amended and Restated Nonqualified Stock Option Award Agreement between Amit Shashank and the Company dated June 1, 2005 (incorporated by reference to Exhibit 10.35 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.22 Agreement dated July 17, 2006 among Norwich Union Customer Services (Singapore) PTE Ltd., ExlService Holdings, Inc., ExlService.com (India) Private Limited and Noida Customer Operations Private Limited (incorporated by reference to Exhibit 10.36 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.23 ExlService Holdings, Inc. 2006 Omnibus India Subplan 2 (incorporated by reference to Exhibit 10.38 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.24 Form of Stock Option Agreement under the 2006 Omnibus India Subplan 2 (incorporated by reference to Exhibit 10.39 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.25 Form of Restricted Stock Award Agreement under the 2006 Omnibus India Subplan 2 (incorporated by reference to Exhibit 10.40 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.26 Restricted Stock Award Agreement between Vikram Talwar and the Company dated July 27, 2006 (incorporated by reference to Exhibit 10.41 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.27 Non-Qualified Stock Option Agreement between Rohit Kapoor and the Company dated July 27, 2006 (incorporated by reference to Exhibit 10.42 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.28 Amendment to ExlService Holdings, Inc. 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.43 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.29 Form of Restricted Stock Unit Agreement 1 under the 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.44 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.30 Form of Restricted Stock Unit Agreement 2 under the 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.45 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.31 Amendment No. 2 to ExlService Holdings, Inc. 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.46 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.32 Employee Offer Letter, dated February 22, 2007, between ExlService Holdings, Inc. and Matthew Appel (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed on February 28, 2007).
- 10.33 Letter dated as of February 26, 2007, between Aviva Global Services Singapore Private Limited, ExlService Holdings, Inc., ExlService.com (India) Private Limited and Noida Customer Operations Private Limited (incorporated by reference to Exhibit 10.46 to the Annual Report on Form 10-K filed on March 17, 2008).
- 10.34 Letter dated as of July 1, 2007, between Norwich Union and the Company (incorporated by reference to the Exhibit 10.1 to the Quarterly Report on Form 10-Q filed on August 14, 2007).
- 10.35 Letter dated as of September 10, 2007, between Norwich Union and the Company (incorporated by reference to the Exhibit 10.1 to the Quarterly Report on Form 10-Q filed on November 14, 2007).
- 10.36 Letter dated as of February 5, 2008, between Norwich Union and the Company (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed on May 12, 2008).

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10.37**	Framework Agreement, dated July 25, 2005, between Centrica plc, the Company and ExlService.com (India) Private Limited.
10.38	Notice of Extension between Centrica plc and the Company, dated July 11, 2008 (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed on November 10, 2008).
10.39	Amendment No. 3 to ExlService Holdings, Inc. 2006 Omnibus Award Plan (incorporated by reference to Exhibit 4.6 to our Registration Statement on Form S-8 (No. 333-157076)).
21.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of the Executive Chairman of ExlService Holdings, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of ExlService Holdings, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of the President and Chief Executive Officer of ExlService Holdings, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Executive Chairman pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.3	Certification of the President and Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

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



**INDEX TO EXHIBITS**

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

- 2.1\* Deed of Settlement, dated July 11, 2008, between the Company, Norwich Union Insurance Limited, Aviva International Holdings Limited, Aviva Global Services Singapore Private Limited, exlservice.com (India) Private Limited and Noida Customer Operations Private Limited (incorporated by reference to Exhibit 2.3 to the Quarterly Report on Form 10-Q filed on November 10, 2008).
- 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on October 25, 2006).
- 3.2 Second Amended and Restated By-laws (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on April 30, 2008).
- 4.1 Specimen Stock Certificate (incorporated by reference to Exhibit 4.1 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 4.2 Registration Rights Agreement (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on October 25, 2006).
- 10.1 Umbrella Agreement, dated as of August 26, 2004, by and among Norwich Union Customer Services (Singapore) Private Limited, ExlService Holdings, Inc., ExlService.com (India) Private Limited and Noida Customer Operations Private Limited (incorporated by reference to Exhibit 10.1 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.2 Insurance Services Framework Agreement, dated as of July 29, 2004, by and between Norwich Union Customer Services (Singapore) Private Limited and ExlService Holdings, Inc. (incorporated by reference to Exhibit 10.2 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.3 Data Protection Agreement, dated as of July 29, 2004 by and among Norwich Union Customer Services (Singapore) Private Limited, Norwich Union Insurance Limited, ExlService Holdings, Inc. and ExlService.com (India) Private Limited (incorporated by reference to Exhibit 10.4 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.4 Data Protection Agreement, dated as of August 26, 2004, by and among Norwich Union Customer Services (Singapore) Private Limited, Norwich Union Insurance Limited, Norwich Union Life Services Limited, ExlService Holdings, Inc., ExlService.com (India) Private Limited and Noida Customer Operations Private Limited (incorporated by reference to Exhibit 10.5 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.5 Virtual Shareholders' Agreement, dated as of August 26, 2004, by and among Norwich Union Customer Services (Singapore) Private Limited, ExlService Holdings, Inc., ExlService.com (India) Private Limited and Noida Customer Operations Private Limited (incorporated by reference to Exhibit 10.6 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.6 Confidentiality Agreement, dated as of August 26, 2004, by and among Norwich Union Customer Services (Singapore) Private Limited, Norwich Union Insurance Limited, Norwich Union Life Services Limited, ExlService Holdings, Inc., ExlService.com (India) Private Limited and Noida Customer Operations Private Limited (incorporated by reference to Exhibit 10.7 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.7 Guarantee and Indemnity, dated as of August 26, 2004, by and between Norwich Union Insurance Limited and ExlService Holdings, Inc. (incorporated by reference to Exhibit 10.8 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).

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- 10.8 Guarantee and Indemnity, dated as of August 26, 2004, by and between Norwich Union Life Holdings Limited and ExlService Holdings, Inc. (incorporated by reference to Exhibit 10.9 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.9 Employment Contract, as amended, effective October 3, 2006, by and between ExlService Inc. and Amit Shashank (incorporated by reference to Exhibit 10.12 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.10 Amended and Restated Employment and Non-Competition Agreement entered into by and among ExlService Holdings, Inc. and Vikram Talwar.
- 10.11 Amended and Restated Employment and Non-Competition Agreement entered into by and among ExlService Holdings, Inc. and Rohit Kapoor.
- 10.12 ExlService Holdings, Inc. 2003 India Stock Option Plan (incorporated by reference to Exhibit 10.16 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.13 ExlService Holdings, Inc. 2003 Stock Option Plan (incorporated by reference to Exhibit 10.18 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.14 ExlService Holdings, Inc. 2006 Omnibus Plan (incorporated by reference to Exhibit 10.20 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.15 ExlService Holdings, Inc. 2006 Omnibus India Subplan 1 (incorporated by reference to Exhibit 10.21 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.16 Form of Stock Option Agreement under the 2006 Omnibus India Subplan 1 (incorporated by reference to Exhibit 10.22 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.17 ExlService Holdings, Inc. Management Incentive Plan (incorporated by reference to Exhibit 10.23 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.18 Form of Restricted Stock Award Agreement under the 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.31 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.19 Form of Stock Option Agreement under the 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.32 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.20 Form of Restricted Stock Award Agreement under the 2006 Omnibus India Subplan 1 (incorporated by reference to Exhibit 10.33 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.21 Amended and Restated Nonqualified Stock Option Award Agreement between Amit Shashank and the Company dated June 1, 2005 (incorporated by reference to Exhibit 10.35 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.22 Agreement dated July 17, 2006 among Norwich Union Customer Services (Singapore) PTE Ltd., ExlService Holdings, Inc., ExlService.com (India) Private Limited and Noida Customer Operations Private Limited (incorporated by reference to Exhibit 10.36 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.23 ExlService Holdings, Inc. 2006 Omnibus India Subplan 2 (incorporated by reference to Exhibit 10.38 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
- 10.24 Form of Stock Option Agreement under the 2006 Omnibus India Subplan 2 (incorporated by reference to Exhibit 10.39 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).

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10.25	Form of Restricted Stock Award Agreement under the 2006 Omnibus India Subplan 2 (incorporated by reference to Exhibit 10.40 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
10.26	Restricted Stock Award Agreement between Vikram Talwar and the Company dated July 27, 2006 (incorporated by reference to Exhibit 10.41 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
10.27	Non-Qualified Stock Option Agreement between Rohit Kapoor and the Company dated July 27, 2006 (incorporated by reference to Exhibit 10.42 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
10.28	Amendment to ExlService Holdings, Inc. 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.43 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
10.29	Form of Restricted Stock Unit Agreement 1 under the 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.44 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
10.30	Form of Restricted Stock Unit Agreement 2 under the 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.45 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
10.31	Amendment No. 2 to ExlService Holdings, Inc. 2006 Omnibus Award Plan (incorporated by reference to Exhibit 10.46 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
10.32	Employee Offer Letter, dated February 22, 2007, between ExlService Holdings, Inc. and Matthew Appel (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed on February 28, 2007).
10.33	Letter dated as of February 26, 2007, between Aviva Global Services Singapore Private Limited, ExlService Holdings, Inc., ExlService.com (India) Private Limited and Noida Customer Operations Private Limited (incorporated by reference to Exhibit 10.46 to the Annual Report on Form 10-K filed on March 17, 2008).
10.34	Letter dated as of July 1, 2007, between Norwich Union and the Company (incorporated by reference to the Exhibit 10.1 to the Quarterly Report on Form 10-Q filed on August 14, 2007).
10.35	Letter dated as of September 10, 2007, between Norwich Union and the Company (incorporated by reference to the Exhibit 10.1 to the Quarterly Report on Form 10-Q filed on November 14, 2007).
10.36	Letter dated as of February 5, 2008, between Norwich Union and the Company (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed on May 12, 2008).
10.37**	Framework Agreement, dated July 25, 2005, between Centrica plc, the Company and ExlService.com (India) Private Limited.
10.38	Notice of Extension between Centrica plc and the Company, dated July 11, 2008 (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed on November 10, 2008).
10.39	Amendment No. 3 to ExlService Holdings, Inc. 2006 Omnibus Award Plan (incorporated by reference to Exhibit 4.6 to our Registration Statement on Form S-8 (No. 333-157076)).
21.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 of Amendment 6 to our Registration Statement on Form S-1 (No. 333-121001)).
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of the Executive Chairman of ExlService Holdings, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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- 31.2 Certification of the Chief Financial Officer of ExlService Holdings, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.3 Certification of the President and Chief Executive Officer of ExlService Holdings, pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Executive Chairman pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.3 Certification of the President and Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

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



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of ExlService Holdings, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity and comprehensive income (loss) and cash flows for each of the three years in the period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ExlService Holdings, Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 2 and 11 to the Consolidated Financial Statements, effective January 1, 2006, the Company adopted the provision of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payments using the modified prospective transition method. Also, as discussed in Notes 2 and 8 to the Consolidated Financial Statements, effective December 31, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of ExlService Holdings Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York  
March 16, 2009

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited ExlService Holdings, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). ExlService Holdings, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, ExlService Holdings, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ExlService Holdings Inc. as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity and comprehensive income (loss) and cash flows for each of the three years in the period ended December 31, 2008 and our report dated March 16, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York  
March 16, 2009

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**EXLSERVICE HOLDINGS, INC.  
CONSOLIDATED BALANCE SHEETS**

	December 31, 2008	December 31, 2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$112,174,054	\$101,405,889
Restricted cash	203,262	283,436
Short-term investments	153,242	252,561
Accounts receivable, net of allowance for doubtful accounts of \$128,134 in 2008 and \$85,539 in 2007	33,624,964	38,513,774
Accounts receivable from related parties	88,790	338,629
Employee receivables	202,644	225,278
Prepaid expenses	2,634,516	2,426,242
Deferred tax assets	3,400,557	3,091,961
Prepaid income tax	2,033,057	—
Other current assets	3,361,863	7,190,909
Current assets of discontinued operations	—	9,412,814
Total current assets	<u>157,876,949</u>	<u>163,141,493</u>
Fixed assets, net	24,518,112	24,142,470
Intangibles, net of amortization	—	340,000
Goodwill	17,557,333	16,785,487
Restricted cash	280,911	244,121
Deferred tax assets	3,047,192	3,403,563
Other assets	8,688,195	7,631,029
Non-current assets of discontinued operations	—	2,673,682
Total assets	<u>\$211,968,692</u>	<u>\$218,361,845</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 3,370,788	\$ 6,389,272
Deferred revenue	2,961,336	4,440,261
Accrued employee cost	14,725,094	12,893,462
Other accrued expenses and current liabilities	17,890,094	17,103,150
Income taxes payable	—	725,622
Current portion of capital lease obligation	120,697	125,960
Current liabilities of discontinued operations	—	1,893,265
Total current liabilities	<u>39,068,009</u>	<u>43,570,992</u>
Capital lease obligations, less current portion	178,940	258,399
Other non-current liabilities	1,390,038	471,042
Non-current liabilities of discontinued operations	—	81,643
Total liabilities	<u>40,636,987</u>	<u>44,382,076</u>
Preferred stock, \$0.001 par value; 15,000,000 shares authorized	—	—
Stockholders' equity:		
Common stock, \$0.001 par value; 100,000,000 shares authorized, 29,054,145 shares issued and outstanding as of December 31, 2008 and 28,891,043 shares issued and outstanding as of December 31, 2007	29,054	28,891
Additional paid-in capital	116,675,603	110,988,552
Retained earnings	70,020,849	55,708,233
Accumulated other comprehensive income/(loss)	(14,491,104)	7,570,026
	<u>172,234,402</u>	<u>174,295,702</u>
Less: 237,080 shares as of December 31, 2008 and 163,690 shares as of December 31, 2007, held in treasury, at cost	(902,697)	(315,933)
Total stockholders' equity	<u>171,331,705</u>	<u>173,979,769</u>
Total liabilities and stockholders' equity	<u>\$211,968,692</u>	<u>\$218,361,845</u>

*See accompanying notes*

**EXLSERVICE HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Year ended December 31,		
	2008	2007	2006
Revenues	\$181,085,673	\$150,401,512	\$97,064,399
Revenues (from related parties)	628,090	1,631,021	1,614,937
Total revenues	<u>181,713,763</u>	<u>152,032,533</u>	<u>98,679,336</u>
Cost of revenues (exclusive of depreciation and amortization)	<u>112,436,276</u>	<u>100,111,986</u>	<u>62,618,776</u>
Gross profit	<u>69,277,487</u>	<u>51,920,547</u>	<u>36,060,560</u>
Operating expenses:			
General and administrative expenses	31,112,703	28,723,594	18,697,909
Selling and marketing expenses	11,344,267	9,171,240	4,739,390
Depreciation and amortization	<u>11,155,933</u>	<u>9,211,851</u>	<u>7,098,684</u>
Total operating expenses	<u>53,612,903</u>	<u>47,106,685</u>	<u>30,535,983</u>
Income from continuing operations	15,664,584	4,813,862	5,524,577
Other income/(expense):			
Foreign exchange gain/(loss)	(9,275,725)	7,584,096	(477,990)
Interest and other income	3,478,741	4,258,162	1,889,336
Interest expense	<u>(70,708)</u>	<u>(55,355)</u>	<u>(579,441)</u>
Income from continuing operations before income taxes	9,796,892	16,600,765	6,356,482
Income tax benefit	<u>(1,339,741)</u>	<u>(973,787)</u>	<u>(360,748)</u>
Income from continuing operations	11,136,633	17,574,552	6,717,230
Income from discontinued operations, net of taxes	<u>3,271,034</u>	<u>9,469,034</u>	<u>7,340,566</u>
Net income	14,407,667	27,043,586	14,057,796
Dividends and accretion on preferred stock	—	—	(617,329)
Net income to common stockholders	<u>\$ 14,407,667</u>	<u>\$ 27,043,586</u>	<u>\$13,440,467</u>
Earnings per share(a):			
Basic:			
Continuing operations	\$ 0.39	\$ 0.62	\$ 0.27
Discontinued operations	<u>0.11</u>	<u>0.33</u>	<u>0.32</u>
	<u>\$ 0.50</u>	<u>\$ 0.95</u>	<u>\$ 0.59</u>
Diluted:			
Continuing operations	\$ 0.38	\$ 0.60	\$ 0.26
Discontinued operations	<u>0.11</u>	<u>0.32</u>	<u>0.32</u>
	<u>\$ 0.49</u>	<u>\$ 0.93</u>	<u>\$ 0.58</u>
Weighted-average number of shares used in computing earnings per share:			
Basic	28,811,040	28,480,033	22,863,539
Diluted	29,212,045	29,191,199	23,033,266

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

*See accompanying notes*

## EXLSERVICE HOLDINGS, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME/(LOSS)

	Common Stock		Additional Paid-in Capital	Deferred Stock Based Compensation	Retained Earnings	Accumulated Other	Treasury	Total
	Shares	Amount				Comprehensive Income/(Loss)		
Balance as of December 31, 2005	21,330,514	\$ 10,665	\$ 17,102,069	\$ (200,188)	\$ 15,235,424	\$ (1,189,628)	\$ (14,459)	\$ 30,943,883
Common stock issued (net of issuance cost of \$2,353,438)	5,750,000	5,750	69,832,063	—	—	—	—	69,837,813
Stock split	—	11,244	—	—	(11,244)	—	—	—
Stock issued on exercise/vesting of equity awards	131,813	79	149,865	—	—	—	—	149,944
Non-employee stock options	—	—	247,016	—	—	—	—	247,016
Dividends and accretion on preferred stock	—	—	—	—	(617,329)	—	—	(617,329)
Issuance of stock on acquisition of Inductis	1,049,962	525	9,134,144	—	—	—	—	9,134,669
Adjustment to initially apply FAS 123R	—	—	(200,188)	200,188	—	—	—	—
Stock based compensation	—	—	1,974,266	—	—	—	—	1,974,266
Excess Tax benefit from Stock Based Compensation	—	—	190,139	—	—	—	—	190,139
Acquisition of treasury stock	—	—	—	—	—	—	(21,057)	(21,057)
Comprehensive income:								
Translation adjustments	—	—	—	—	—	471,527	—	471,527
Unrealized gain on cash flow hedges	—	—	—	—	—	1,319,698	—	1,319,698
Reclassification adjustment:								
Cash flow hedges	—	—	—	—	—	(379,887)	—	(379,887)
Net income to common stockholders	—	—	—	—	14,057,796	—	—	14,057,796
Total comprehensive income	—	—	—	—	—	—	—	15,469,134
Adjustment to initially apply FAS 158, net of taxes of \$7,337	—	—	—	—	—	(112,017)	—	(112,017)
Balance as of December 31, 2006	28,262,289	\$ 28,263	\$ 98,429,374	\$ —	\$ 28,664,647	\$ 109,693	\$ (35,516)	\$ 127,196,461
Stock issued on exercise/vesting of equity awards	371,481	371	1,863,985	—	—	—	—	1,864,356
Non-employee stock options	—	—	186,875	—	—	—	—	186,875
Issuance of stock on acquisition of Inductis	257,273	257	5,448,785	—	—	—	—	5,449,042
Stock based compensation	—	—	4,306,672	—	—	—	—	4,306,672
Excess tax benefit from Stock Based Compensation	—	—	752,861	—	—	—	—	752,861
Acquisition of treasury stock	—	—	—	—	—	—	(280,417)	(280,417)
Comprehensive income:								
Translation adjustments	—	—	—	—	—	2,241,507	—	2,241,507
Unrealized gain on cash flow hedges	—	—	—	—	—	12,262,262	—	12,262,262
Retirement benefits, net of taxes of \$8,588	—	—	—	—	—	(201,916)	—	(201,916)
Reclassification adjustment:								
Cash flow hedges	—	—	—	—	—	(6,841,520)	—	(6,841,520)
Net income to common stockholders	—	—	—	—	27,043,586	—	—	27,043,586
Total comprehensive income	—	—	—	—	—	—	—	34,503,919
Balance as of December 31, 2007	28,891,043	\$ 28,891	\$ 110,988,552	\$ —	\$ 55,708,233	\$ 7,570,026	\$ (315,933)	\$ 173,979,769
Adjustment for change in measurement date pursuant to FAS 158, net of taxes of \$5,720 Service cost and Interest cost	—	—	—	—	(70,123)	—	—	(70,123)
Amortization of actuarial loss	—	—	—	—	(24,928)	24,928	—	—
Stock issued on exercise/vesting of equity awards	163,102	163	619,903	—	—	—	—	620,066
Non-employee stock options	—	—	(69,822)	—	—	—	—	(69,822)
Stock based compensation	—	—	5,278,278	—	—	—	—	5,278,278
Excess tax expense from Stock Based Compensation	—	—	(141,308)	—	—	—	—	(141,308)
Acquisition of treasury stock	—	—	—	—	—	—	(586,764)	(586,764)
Comprehensive income:								
Translation adjustments	—	—	—	—	—	(10,198,790)	—	(10,198,790)
Unrealized (loss) on cash flow hedges, net of taxes \$0	—	—	—	—	—	(15,640,512)	—	(15,640,512)
Retirement benefits, net of taxes \$0	—	—	—	—	—	82,375	—	82,375
Reclassification adjustment:								
Cash flow hedges	—	—	—	—	—	3,670,869	—	3,670,869
Net income to common stockholders	—	—	—	—	14,407,667	—	—	14,407,667
Total comprehensive loss	—	—	—	—	—	—	—	(7,678,391)
Balance as of December 31, 2008	29,054,145	\$ 29,054	\$ 116,675,603	\$ —	\$ 70,020,849	\$ (14,491,104)	\$ (902,697)	\$ 171,331,705

See accompanying notes

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**EXLSERVICE HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**

	Year ended December 31,		
	2008	2007	2006
Cash flows from operating activities			
Net income	\$ 14,407,667	\$ 27,043,586	\$ 14,057,796
Income from discontinued operations, net of taxes	(3,271,034)	(9,469,034)	(7,340,566)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,155,933	9,211,851	7,098,684
Amortization of deferred financing costs	—	—	112,500
Amortization of deferred stock compensation and other non-cash compensation	5,278,278	4,306,672	1,974,266
Interest on senior long-term debt	—	—	237,691
Non-employee stock options	288,594	545,291	605,432
Foreign exchange (gain)/loss (unrealized)	1,596,640	(1,165,453)	1,000,679
Deferred income taxes	(627,052)	(2,836,801)	(2,140,183)
Excess tax expense/(benefit) from stock-based compensation	141,308	(752,861)	(190,139)
Change in operating assets and liabilities (net of effect of acquisitions):			
Restricted cash	(51,041)	884,946	(350,999)
Accounts receivable	6,199,009	(12,418,734)	(4,933,880)
Prepaid expenses and other current assets	(2,795,913)	2,415,386	(3,079,923)
Accounts payable	(1,602,926)	1,426,187	681,663
Deferred revenue	(1,015,830)	(2,051,548)	(2,081,340)
Accrued expenses and other liabilities	6,536,207	3,975,507	5,069,995
Income taxes payable	(2,806,311)	(2,038,977)	49,452
Other assets	(3,124,417)	(5,394,030)	280,735
Net cash provided by operating activities—continuing operations	30,309,112	13,681,988	11,051,863
Net cash provided by operating activities—discontinued operations	4,063,891	9,743,142	8,735,305
Net cash provided by operating activities	34,373,003	23,425,130	19,787,168
Cash flows from investing activities			
Purchase of fixed assets	(14,832,610)	(8,589,668)	(10,067,354)
Business acquisition (net of cash)	(2,156,121)	—	(1,606,543)
Proceeds from sale of discontinued operations	1,038,468	—	—
Purchase of short-term investments	—	(252,561)	—
Net cash used in investing activities—continuing operations	(15,950,263)	(8,842,229)	(11,673,897)
Net cash used in investing activities—discontinued operations	(40,025)	(122,800)	(326,619)
Net cash used in investing activities	(15,990,288)	(8,965,029)	(12,000,516)
Cash flows from financing activities			
Repayment of senior long-term debt	—	—	(5,821,190)
Principal payments on capital lease obligations	(132,711)	(153,300)	(506,758)
Repayment on redemption of preferred stock	—	—	(6,688,413)
Proceeds from sale of common stock, net of issuance costs	—	—	69,837,813
Repayment of bank borrowings and other long term debt	—	—	(4,250,000)
Proceeds from exercise of stock options	620,066	1,641,159	149,944
Excess tax benefit/(deficiency) from stock-based compensation	(141,308)	752,861	190,139
Acquisition of treasury stock	(586,764)	(280,417)	(21,057)
Net cash provided by/(used for) financing activities—continuing operations	(240,717)	1,960,303	52,890,478
Net cash used for financing activities—discontinued operations	—	—	(8,803)
Net cash provided by/(used for) financing activities	(240,717)	1,960,303	52,881,675
Effect of exchange rate changes on cash and cash equivalents	(8,177,678)	423,227	457,144
Net increase in cash and cash equivalents	9,964,320	16,843,631	61,125,471
Cash and cash equivalents, beginning of year	102,209,734	85,366,103	24,240,632
Cash and cash equivalents, end of year	112,174,054	102,209,734	85,366,103
Less: Cash and cash equivalents of discontinued operations, end of year	—	803,845	619,710
Cash and cash equivalents of continuing operations, end of year	<u>\$ 112,174,054</u>	<u>\$ 101,405,889</u>	<u>\$ 84,746,393</u>
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 52,022	\$ 42,376	\$ 3,187,141
Cash paid for taxes	\$ 4,197,956	\$ 7,016,567	\$ 4,301,749
Supplemental disclosure of non-cash information:			
Assets acquired under capital lease	\$ 222,724	\$ 106,024	\$ 247,298
Fair value of shares issuable for non-cash consideration	\$ —	\$ —	\$ 5,413,024
Issuance of stock on acquisition of Inductis	\$ —	\$ 5,449,042	\$ 9,134,669

*See accompanying notes*

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008**

**1. Organization and Basis of Presentation**

*Organization*

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

*Basis of Presentation*

Certain prior period amounts have been reclassified in the consolidated financial statements to conform to the 2008 presentation. These reclassifications reflect the presentation of discontinued operations of Noida Customer Operations Private Limited (“NCOP”), previously included in the outsourcing services segment. On August 11, 2008, the Company completed the sale of all of its shares of NCOP to Aviva Global Services Singapore Pte Ltd. (see Note 15).

**2. Summary of Significant Accounting Policies**

*Principles of Consolidation*

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

*Use of Estimates*

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

*Foreign Currency*

The functional currency of each entity in the Company is its respective local country currency, which is also the currency of the primary economic environment in which it operates unless otherwise specified. Monetary assets and liabilities in foreign currencies are re-measured into functional currency at the rates of exchange prevailing at the balance sheet dates. Transactions in foreign currencies are re-measured into functional currency at the rates of exchange prevailing on the date of the transaction. All transaction foreign exchange gains and losses are recorded in the accompanying consolidated statements of income.



**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2008**

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

***Cash and Cash Equivalents and Restricted Cash***

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

Current restricted cash represents amounts on deposit with banks against letters of credit and bank guarantees issued by the Company for equipment imports that will mature on various dates within the next year.

Non-current restricted cash represents guarantees against custom and excise bonding issued through banks that will mature after December 31, 2009.

***Short-Term Investments***

The Company's short-term investments consist of time deposits, which mature in less than one year, valued at cost, which approximates fair value. Interest earned on short-term investments is included in interest income.

***Fixed Assets***

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

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

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

***Accounts Receivable***

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

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2008**

**Revenue Recognition**

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

Revenue is recognized on time-and-material contracts primarily on the basis of full time equivalent employees, including direct and indirect costs, incurred on a client contract. Revenue is recognized on cost-plus contracts on the basis of contractually agreed direct and indirect costs incurred on a client contract plus an agreed upon profit mark-up. Revenue is recognized on unit-price based contracts based on the number of specified units of work (such as the number of e-mail responses) delivered to a client. Such revenues are recognized as the related services are provided in accordance with the client contract. When the terms of the client contract specify service level parameters that must be met (such as turn around time or accuracy), the Company monitors such service level parameters to determine if any service credits or penalties have been incurred. Revenue is recognized net of any service credits that are due to a client. The Company has experienced minimal credits and penalties to date.

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

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

The Company accrues for revenue and receivables for services rendered between the last billing date and the balance sheet date.

During the year ended December 31, 2008, the Company received \$436,265 of contract termination fees. This amount is included in revenues in the consolidated statement of income.

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

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

Year ended December 31, 2008	\$ 11,806,843
Year ended December 31, 2007	\$ 7,077,187
Year ended December 31, 2006	\$ 4,354,681

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

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2008**

14%, respectively, of the Company’s total revenues. During the year ended December 31, 2006, two customers accounted for 19% and 18% respectively, of the Company’s total revenues.

As of December 31, 2008, two customers accounted for 25% and 13% respectively, of the Company’s total accounts receivable. As of December 31, 2007, two customers accounted for 30%, and 24% respectively, of the Company’s total accounts receivable.

***Business Combinations, Goodwill and Intangible Assets***

Statement of Financial Accounting Standards No. 141, “*Business Combinations*” (“SFAS No. 141”), requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 specifies that intangible assets acquired in a business combination must be recognized and reported separately from goodwill. In accordance with SFAS No. 142, “*Goodwill and Other Intangible Assets*” all assets and liabilities of the acquired businesses including goodwill are assigned to reporting units.

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

Based on the results of its first step impairment tests performed on October 1, 2008, the Company’s goodwill was not impaired. The Company makes every reasonable effort to ensure that it accurately estimates the fair value of the reporting units. However, future changes in the assumptions used to make these estimates could result in the recording of an impairment loss. In the event the Company records an impairment loss in the future, such amount will not be deductible for tax purposes. As of December 31, 2008, the Company’s goodwill balance was \$17,557,333. Following are details of the Company’s goodwill balance:

**Goodwill:**

	Outsourcing	Transformation	
	Services	Services	Total
Balance at January 1, 2008	\$ —	\$ 16,785,487	\$16,785,487
Goodwill arising from acquisition	987,016	—	987,016
Allocation of goodwill to discontinued operations	(178,154)	—	(178,154)
Foreign currency translation	(37,016)	—	(37,016)
Balance at December 31, 2008	<u>\$ 771,846</u>	<u>\$ 16,785,487</u>	<u>\$17,557,333</u>

On August 11, 2008, the Company sold all of its shares of NCOP, subject to certain post-closing adjustments, to Aviva Global Services Singapore Pte Ltd. Pursuant to the sale of the business, the Company allocated goodwill to discontinued operations.

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2008**

Intangible assets are carried at cost less accumulated amortization. The intangible assets are amortized over their estimated useful lives in proportion to the economic benefits consumed in each period. The estimated useful lives of the intangible assets are as follows:

Customer relationships	1-2 years
Trademarks	1.5 years
Non-compete agreements	1 year

***Segment Information***

Effective April 1, 2008, the Company modified its reportable segments to reflect a change in the operating segments of its business to outsourcing services and transformation services. Prior period information below has been updated to reflect the change. The Outsourcing Services segment is comprised of the former Business Process Outsourcing segment excluding operations and process excellence services (formerly known as process advisory services). The Transformation Services segment is comprised of decision analytics services (formerly known as research and analytics services), risk and financial management services (formerly known as risk advisory services) and operations and process excellence services.

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

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2008**

Revenues and cost of revenues for each of the years ended December 31, 2008, 2007 and 2006, for Outsourcing Services and Transformation Services segments, respectively, are as follows:

	Year ended December 31, 2008			Year ended December 31, 2007		
	Outsourcing	Transformation	Total	Outsourcing	Transformation	Total
	Services	Services		Services	Services	
Revenues	\$138,769,696	\$ 42,315,977	\$181,085,673	\$120,523,400	\$ 29,878,112	\$150,401,512
Revenues (from related parties)	—	628,090	628,090	382,920	1,248,101	1,631,021
Total revenues	138,769,696	42,944,067	181,713,763	120,906,320	31,126,213	152,032,533
Cost of revenues (exclusive of depreciation and amortization)	85,197,013	27,239,263	112,436,276	78,218,595	21,893,391	100,111,986
Gross profit	<u>\$ 53,572,683</u>	<u>\$ 15,704,804</u>	<u>\$ 69,277,487</u>	<u>\$ 42,687,725</u>	<u>\$ 9,232,822</u>	<u>\$ 51,920,547</u>
Selling, general and administrative expenses			42,456,970			37,894,834
Depreciation and amortization			11,155,933			9,211,851
Foreign exchange gain/(loss)			(9,275,725)			7,584,096
Interest and other income			3,478,741			4,258,162
Interest expense			(70,708)			(55,355)
Income tax benefit			(1,339,741)			(973,787)
Income from continuing operations			11,136,633			17,574,552
Income from discontinued operations, net of taxes			3,271,034			9,469,034
Net income to common stockholders			<u>\$ 14,407,667</u>			<u>\$ 27,043,586</u>

	Year ended December 31, 2006		
	Outsourcing	Transformation	Total
	Services	Services	
Revenues	\$ 74,928,530	\$ 22,135,869	\$ 97,064,399
Revenues (from related parties)	537,890	1,077,047	1,614,937
Total revenues	75,466,420	23,212,916	98,679,336
Cost of revenues (exclusive of depreciation and amortization)	48,628,866	13,989,910	62,618,776
Gross profit	<u>\$ 26,837,554</u>	<u>\$ 9,223,006</u>	<u>\$ 36,060,560</u>
Selling, general and administrative expenses			23,437,299
Depreciation and amortization			7,098,684
Foreign exchange loss			(477,990)
Interest and other income			1,889,336
Interest expense			(579,441)
Income tax benefit			(360,748)
Income from continuing operations			6,717,230
Income from discontinued operations, net of taxes			7,340,566
Net Income			14,057,796
Dividends and accretion on preferred stock			(617,329)
Net income to common stockholders			<u>\$ 13,440,467</u>

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2008**

***Cost of Revenues***

Cost of revenues includes salaries, employee benefits and stock compensation expense, project related travel costs, communication expenses, technology operating expenses and facilities costs.

***Income Taxes***

The Company accounts for income taxes in accordance with SFAS No. 109, “*Accounting for Income Taxes*” (“SFAS No. 109”). Under SFAS No. 109, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying value of existing assets and liabilities and their respective tax basis and all operating losses carried forward, if any. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which the applicable temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates or tax status is recognized in the statement of income in the period in which the change is identified. Deferred tax assets are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

On January 1, 2007, the Company adopted FASB Interpretation No. 48, “*Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109*” (“FIN 48”). FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. Interest and penalties recognized in accordance with the guidance provided in FIN 48, if any, are being classified as interest expense and general and administrative expense, respectively. The Company did not have any unrecognized tax benefits as a result of the adoption of FIN 48. Moreover, during the period, the Company neither had any unrecognized tax benefits nor recognized any uncertain tax benefits. The Company did not recognize any interest or penalties in the Company’s Consolidated Statement of Income nor did it have any such amounts recognized on the Company’s Consolidated Balance Sheets. In addition, the Company did not have any uncertain tax positions that were expected to significantly change within 12 months of the reporting date.

All U.S. federal and state tax filings of ExlService Holdings and its U.S. subsidiaries for tax years since 2005 are subject to examination by the U.S. federal and state tax authorities, respectively. The Company concluded the Internal Revenue Service examination for the tax year 2004 for ExlService Holdings and its U.S. subsidiaries without any change in the tax return as originally filed. All tax filings of the Company’s subsidiaries in India are subject to examination by the Indian tax authorities for tax years since 2001-02, and the 2003-04 and subsequent tax years are being examined by the Indian tax authorities for EXL India. Tax filings for Inductis India are being examined by the Indian tax authorities for tax years 2006-07 and 2007-08. In addition, the tax filings for Exl Inc. for tax years 2003-04 and subsequent tax years are under examination by the Indian tax authorities. All tax filings of the Company’s subsidiaries in the U.K. are subject to examination by U.K. tax authorities for tax years since 2007.

***Employee Benefits***

In accordance with Indian law, all employees of the Company in India are entitled to receive benefits under the Government Provident Fund, a defined contribution plan in which both the employee and the Company contribute monthly at a determined rate (currently 12% of the employee’s base salary). These contributions are made to the Government Provident Fund. The Company is only obligated to match the employee contributions and make payments to the Fund while the employee remains employed by the Company. The assets held by the

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2008**

Fund are managed by the Fund and it is the obligation of the Fund to pay the accumulated contributions along with the returns declared by it every year to employees at the time of retirement or request for withdrawal.

In accordance with Indian law, the Company provides for gratuity, a defined benefit retirement plan (the “Gratuity Plan”) covering all of its employees in India. The Gratuity Plan provides for a lump sum payment to vested employees on retirement or on termination of employment in an amount based on the respective employee’s salary and years of employment with the Company. Gratuity benefit cost for the year is calculated on an actuarial basis.

In September 2006, the FASB issued SFAS No. 158, “*Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—An Amendment of FASB No. 87, 88, 106 and 132(R)*” (“SFAS 158”). SFAS 158 requires that the funded status of defined benefit postretirement plans be recognized on the company’s balance sheet, and changes in the funded status be reflected in comprehensive income. The standard also requires companies to measure the funded status of the plan as of the date of its fiscal year-end. The Company adopted the recognition and disclosure requirements of SFAS 158 as of December 31, 2006 and the measurement date requirement as of January 1, 2008.

***Stock-Based Compensation***

The Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), “*Share-Based Payment*” (“FAS No. 123 (R)”) on January 1, 2006. Under the fair value recognition provisions of FAS No. 123(R), stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. See Note 11 for a detailed discussion of the Company’s stock-based compensation.

***Earnings Per Share***

Basic earnings per share are computed by dividing net income to common stockholders by the weighted average number of common shares outstanding during each period. In determining the income to common stockholders, net income from continuing operations has been reduced by dividends and accretion on preferred stock. Diluted earnings per share are computed using the weighted average number of common shares plus the potentially dilutive effect of common stock equivalents plus the future stock compensation expense on stock options, restricted stock and restricted stock units issued and outstanding at the reporting date. Stock options, restricted stock and restricted stock units that are anti-dilutive are excluded from the computation of weighted average shares outstanding. For the years ended December 31, 2008, 2007 and 2006, the weighted average number of shares used in calculating diluted earnings per share includes stock options, restricted stock and restricted stock units for 401,005, 711,166 and 169,727 shares, respectively. The calculation of earnings per share for the years ended December 31, 2008, 2007 and 2006 excludes stock options, restricted stock and restricted stock units for 1,537,124 shares, 498,000 shares and 1,783,000 shares, respectively, as their effect would have been anti-dilutive.

***Accumulated Other Comprehensive Income/(Loss)***

SFAS No. 130, “*Reporting Comprehensive Income*” (“SFAS No. 130”), establishes rules for the reporting of comprehensive income and its components. Comprehensive income is defined as all changes in equity from non-owner sources. For the Company, comprehensive income/(loss) consists of net earnings/(loss), amortization of actuarial gain/(loss) and changes in the cumulative foreign currency translation adjustments. In addition, the Company enters into foreign currency exchange contracts, which are designated as cash flow hedges in accordance with SFAS No. 133, “*Accounting for Derivative Instruments and Hedging Activities*” (“SFAS



**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2008**

No. 133”). Changes in the fair values of contracts that are deemed effective are recorded as a component of accumulated other comprehensive income until the settlement of that contract. The balances of different components as of December 31, 2008 and 2007 are as follows:

	December 31, 2008	December 31, 2007
Cumulative translation adjustments	\$ (8,003,110)	\$2,195,680
Unrealized gain/(loss) on cash flow hedges	(6,281,364)	5,688,279
Retirement benefits	(206,630)	(313,933)
Accumulated other comprehensive income/(loss)	\$(14,491,104)	\$7,570,026

***Financial Instruments and Concentration of Credit Risk***

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

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

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

The Company hedges anticipated transactions that are subject to foreign exchange exposure with foreign exchange contracts that are designated effective and qualify as cash flow hedges under SFAS No. 133. Changes in the fair value of these cash flow hedges which are deemed effective, are recorded in accumulated other comprehensive income/(loss) until the contract is settled and at that time are recognized in the consolidated statements of income. Changes in the fair value of cash flow hedges deemed ineffective are recognized in the consolidated statement of operations and are included in foreign exchange (gain) loss. Other derivatives not designated as hedging instruments under SFAS 133 consist of forward contracts that the Company uses to hedge intercompany balances and other monetary assets or liabilities denominated in currencies other than the functional currency.

The Company had outstanding forward exchange contracts totaling \$110,182,000 and GBP30,320,000 as of December 31, 2008 and totaling \$44,250,000 and GBP29,000,000 as of December 31, 2007.

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2008**

The Company evaluates hedge effectiveness at the time a contract is entered into as well as on an ongoing basis. If during this time, a contract is deemed ineffective, the change in the fair value is recorded in other income in the consolidated statements of income. For the years ended December 31, 2008, 2007 and 2006, net gain/(loss) from ineffective cash flow hedges included in the consolidated statement of income totaled (\$3,206,830), \$972,347 and (\$1,111,972), respectively. For the years ended December 31, 2008, 2007 and 2006, the Company recognized net gains from other derivatives included in its consolidated statements of income totaled \$2,509,289, \$0 and \$0, respectively. Such gain/(loss) is included in foreign exchange gain (loss) in the consolidated statements of income. For hedge relationships discontinued because the forecasted transaction is not expected to occur by the end of the originally specified period, any related derivative amounts recorded in equity are reclassified to earnings. For the year ended December 31, 2008, (\$994,564) was reclassified from accumulated other comprehensive income into earnings because it is not probable that the forecasted transaction would occur. No significant amounts of gains or losses were reclassified from accumulated other comprehensive income into earnings as a result of forecasted transactions that failed to occur for the years ended December 31, 2007 and 2006.

The Company estimates that approximately \$5,511,795 of net derivative loss included in accumulated other comprehensive income could be reclassified into earnings within the next 12 months based on exchange rates prevailing as of December 31, 2008. At December 31, 2008, the maximum outstanding term of derivative instruments that hedge forecasted transactions was 34 months.

**Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, “*Fair Value Measurements*” (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. FSP 157-2 “*Partial Deferral of the Effective Date of Statement 157*,” deferred the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008. The implementation of SFAS No. 157 for financial assets and financial liabilities, effective January 1, 2008, did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows. The Company is currently evaluating the impact of SFAS No. 157 on non-financial assets and non-financial liabilities, but does not expect the adoption of SFAS No. 157 to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

The Company endeavors to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company has determined that its financial assets and liabilities are level 2 in the fair value hierarchy. The following table sets forth the Company’s financial assets and liabilities that were accounted for at fair value as of December 31, 2008. The table excludes cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses for which fair values approximate their carrying amounts.

	<b>December 31, 2008</b>
<b>Other current liabilities:</b>	
Foreign currency exchange contracts	\$ 5,633,730
<b>Non-current liabilities:</b>	
Foreign currency exchange contracts	\$ 769,569

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2008**

In the normal course of business, the Company actively looks to mitigate the exposure of foreign currency market risk by entering into various hedging instruments, authorized under its policies, with counterparties that are highly rated financial institutions. The Company's primary exchange rate exposure is with the U.K. pound sterling and the Indian rupee. The Company uses derivative instruments for the purpose of mitigating the underlying exposure from foreign currency fluctuation risks associated with forecasted transactions denominated in certain foreign currencies and to minimize earnings and cash flow volatility associated with the changes in foreign currency exchange rates, and not for speculative trading purposes. The forward foreign currency exchange contracts agreements are valued using broker quotations. As such, these derivative instruments are classified within level 2.

In February 2007, FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115*" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other eligible items at fair value. SFAS No. 159 was effective as of January 1, 2008. The implementation of SFAS No. 159 did not have a material impact on the Company's consolidated financial position, consolidated statements of income or cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "*Business Combinations*" ("SFAS No. 141R"). The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited.

In March 2008, the FASB issued SFAS No. 161, "*Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*" ("SFAS No. 161"). SFAS No. 161 amends and expands the disclosures required by SFAS No. 133 so that they provide an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and how derivative instruments affect an entity's financial position, financial performance and cash flows. SFAS No. 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently evaluating the impact of SFAS No. 161 and therefore had not adopted SFAS No. 161 as of December 31, 2008.

In April 2008, the FASB issued FASB Staff Position No. 142-3, "*Determination of the Useful Life of Intangible Assets*" ("FSP 142-3"). FSP 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB Statement No. 142, "*Goodwill and Other Intangible Assets*." This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008 with early adoption prohibited.

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2008**

**3. Quarterly Financial Data (Unaudited)**

Summarized quarterly results for the years ended December 31, 2008 and 2007 are as follows:

2008	Three Months Ended				Full Year
	March 31	June 30	September 30	December 31	
Revenues	\$44,431,274	\$47,015,219	\$46,572,902	\$43,694,368	\$181,713,763
Gross profit	\$15,797,368	\$16,792,854	\$18,526,650	\$18,160,615	\$69,277,487
Income from continuing operations	\$4,715,012	\$2,597,016	\$374,332	\$3,450,273	\$11,136,633
Income/(loss) from discontinued operations	\$2,084,800	\$2,667,056	\$(1,449,594)	\$(31,228)	\$3,271,034
Net income/(loss) to common stockholders	\$6,799,812	\$5,264,072	\$(1,075,262)	\$3,419,045	\$14,407,667
Basic EPS—continuing operations	\$0.16	\$0.09	\$0.01	\$0.12	\$0.39
Basic EPS—discontinued operations	\$0.07	\$0.09	\$(0.05)	\$—	\$0.11
Diluted EPS—continuing operations	\$0.16	\$0.09	\$0.01	\$0.12	\$0.38
Diluted EPS—discontinued operations	\$0.07	\$0.09	\$(0.05)	\$—	\$0.11
Weighted-average number of shares used in computing earnings per share:					
Basic	28,757,077	28,799,510	28,846,137	28,839,729	28,811,040
Diluted	29,292,838	29,351,038	29,127,304	29,075,293	29,212,045
Note:					
Stock compensation expense—Cost of revenues	\$132,768	\$454,614	\$396,013	\$129,080	\$1,112,475
Stock compensation expense—SG&A	\$855,560	\$1,431,974	\$1,155,242	\$723,027	\$4,165,803
Amortization of intangibles	\$212,129	\$220,624	\$50,625	\$50,622	\$534,000
2007	Three Months Ended				Full Year
	March 31	June 30	September 30	December 31	
Revenues	\$33,410,093	\$35,932,828	\$39,532,450	\$43,157,162	\$152,032,533
Gross profit	\$11,821,280	\$10,704,917	\$13,556,943	\$15,837,407	\$51,920,547
Income from continuing operations	\$3,213,490	\$3,259,410	\$4,011,439	\$7,090,213	\$17,574,552
Income/(loss) from discontinued operations	\$2,195,136	\$2,360,638	\$2,228,001	\$2,685,259	\$9,469,034
Net income to common stockholders	\$5,408,626	\$5,620,048	\$6,239,440	\$9,775,472	\$27,043,586
Basic EPS—continuing operations	\$0.11	\$0.11	\$0.14	\$0.25	\$0.62
Basic EPS—discontinued operations	\$0.08	\$0.08	\$0.08	\$0.09	\$0.33
Diluted EPS—continuing operations	\$0.11	\$0.11	\$0.14	\$0.24	\$0.60
Diluted EPS—discontinued operations	\$0.08	\$0.08	\$0.08	\$0.09	\$0.32
Weighted-average number of shares used in computing earnings per share:					
Basic	28,141,321	28,495,781	28,644,120	28,698,379	28,480,033
Diluted	29,084,264	29,210,372	29,115,603	29,414,025	29,191,199
Note:					
Stock compensation expense—Cost of revenues	\$212,445	\$288,944	\$313,160	\$303,148	\$1,117,697
Stock compensation expense—SG&A	\$615,764	\$801,843	\$845,988	\$925,380	\$3,188,975
Amortization of intangibles	\$590,000	\$590,000	\$225,000	\$225,000	\$1,630,000

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2008**

**4. Acquisition of Inductis Inc**

On July 1, 2006, the Company acquired all of the outstanding capital stock of Inductis Inc. (“Inductis”) for a payment of \$3,047,160 in cash and the issuance of 524,981 shares with a fair value of \$9,134,669, which is accounted for under the purchase method. In addition the Company issued 257,273 shares of common stock for earn out consideration for the performance related to the period ended December 31, 2006, for which the Company recorded a liability of \$5,449,042 which was included in the caption “Other accrued expenses and current liabilities” in the Company’s consolidated balance sheet as of December 31, 2006. The results of operations of Inductis are included in the Company’s consolidated financial statements from July 1, 2006. Such liability was satisfied by the issuance of shares in 2007.

The entire goodwill of \$16,785,487 acquired from Inductis is allocated to the Transformation Services segment.

The terms of the purchase provided for payment of certain contingent consideration to the existing shareholders of Inductis. However all contingent consideration has been paid and there is no further contingent consideration payable to existing shareholders of Inductis.

*Pro Forma Results*

The unaudited financial information in the table below summarizes the combined results of operations of ExlService and Inductis, on a pro forma basis, as though the companies had been combined as of the beginning of the period presented. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place on January 1, 2006 or of results that may occur in the future. The pro forma consolidated results of operations include adjustments to give effect to amortization of acquired intangible assets other than goodwill, and stock compensation expense issued to Inductis employees together with income tax effects.

The unaudited pro forma financial information for the year ended 2006 combines the historical results for ExlService for the year ended December 31, 2006 and the historical results for Inductis for the year ended December 31, 2006. (Amounts in millions except share and per share data)

	Year ended December 31, 2006 <u>(unaudited)</u>
Revenues	\$ 112.38
Net income to common stockholders(a)	\$ 3.47
Basic EPS	\$ 0.15
Diluted EPS	\$ 0.15
Weighted-average number of shares used in computing earnings per share:	
Basic	23,388,520
Diluted	23,558,247

(a) The pro forma financial information is adjusted for amortization of intangible assets and income tax adjustments.

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2008**

**Intangible Assets**

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

	Year ended December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks	\$ 330,000	\$ (330,000)	\$ —
Customer relationships	1,554,000	(1,554,000)	—
Non-compete agreements	1,460,000	(1,460,000)	—
	<u>\$3,344,000</u>	<u>\$(3,344,000)</u>	<u>\$ —</u>

	Year ended December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks	\$ 330,000	\$ (330,000)	\$ —
Customer relationships	1,360,000	(1,020,000)	340,000
Non-compete agreements	1,460,000	(1,460,000)	—
	<u>\$3,150,000</u>	<u>\$(2,810,000)</u>	<u>\$ 340,000</u>

Amortization expense for the years ended December 31, 2008, 2007 and 2006 was \$534,000, \$1,630,000 and \$1,180,000, respectively.

**5. Fixed Assets:**

Fixed assets consist of the following:

	Estimated Useful Life	December 31, 2008	December 31, 2007
	(Years)		
Network equipment, cabling and computers	3-5	\$ 32,025,532	\$ 26,581,560
Buildings	30	1,632,875	2,032,454
Land	—	1,068,282	1,306,125
Leasehold improvements	3-5	11,417,271	10,271,950
Office furniture and equipment	3-7	4,179,913	4,180,635
Motor vehicles	3	888,374	1,009,214
Construction in progress		1,032,770	1,364,974
		<u>52,245,017</u>	<u>46,746,912</u>
Less: Accumulated depreciation and amortization		<u>(27,726,905)</u>	<u>(22,604,442)</u>
		<u>\$ 24,518,112</u>	<u>\$ 24,142,470</u>

Depreciation and amortization expense for the years ended December 31, 2008, 2007 and 2006 was \$10,621,933, \$7,581,851 and \$5,918,684, respectively.

Construction in progress represents advances paid towards acquisition of fixed assets and the cost of fixed assets not yet placed in service. The cost and accumulated amortization of assets under capital leases at December 31, 2008 were \$446,916 and \$153,520, respectively, and at December 31, 2007 were \$606,491 and \$168,582, respectively.

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2008**

**6. Preferred Stock**

On December 13, 2002, the Company issued 45,304 shares of redeemable Series A preferred stock to certain new investors and certain members of management. The preferred stock was recorded net of issuance costs of \$300,000, which are accreted over a period of five years.

For the year ended December 31, 2006, the Company recorded amortization of issuance costs of \$112,500 and accrued dividends of \$504,829 which were included in dividends and accretion on preferred stock in the Consolidated Statements of Income.

The Company repurchased all of the outstanding preferred stock by repaying \$6,688,413 in October and November 2006 with a portion of the proceeds from its October 2006 initial public offering.

**7. Capital Structure**

*Common Stock*

Prior to the October 2006 initial public offering, the Company had Series A common stock and Series B common stock issued and outstanding. Holders of Series A common stock had one vote for each share held with respect to all matters voted on by the stockholders of the Company. Holders of Series B common stock did not have any voting rights.

In connection with the October 2006 initial public offering all outstanding shares of Series B common stock of the Company converted automatically into shares of Series A common stock (the "Conversion"). In addition, immediately prior to the consummation of the offering, the Company increased its total authorized number of shares of capital stock and effected a two-for-one stock split (the "Stock Split"). As a result of the October 2006 initial public offering, the Company only has one class of common stock outstanding.

During the year ended December 31, 2008, the Company acquired 16,541 shares of common stock from employees in connection with withholding tax payments related to the vesting of restricted stock for a total consideration of \$245,550. The purchase price of \$14.84 per share was the average of the high and low price of the Company's shares of common stock on the Nasdaq Global Select Market on the trading day prior to the vesting date of the shares of restricted stock. These shares are held as treasury stock. During the year ended December 31, 2007, the Company acquired 14,552 shares of common stock from employees for a total consideration of \$280,417.

During the year ended December 31, 2008, the Company purchased 56,849 shares of its common stock for an aggregate purchase price of approximately \$339,508, excluding commissions, representing an average purchase price per share of \$5.97 as part of the share repurchase program that authorized the purchase of up to \$10,000,000 of the Company's outstanding common stock on or prior to November, 2009. Repurchased shares have been recorded as treasury shares and will be held until the Company's board of directors designates that these shares be retired or used for other purposes.

**8. Employee Benefit Plans**

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



**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2008**

On January 1, 2008, the Company adopted the measurement provisions of Statement of Financial Accounting Standards (SFAS) No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—An Amendment of FASB Statements No. 87, 88, 106, and 132R” (SFAS 158). As required by this statement, the Company changed the measurement date for its defined benefit pension plan from October 31 to December 31 for its 2008 financial statements. The Company recognized the net periodic benefit cost of \$95,051 (net of taxes of \$5,720) incurred from November 1, 2007 to December 31, 2007 as an adjustment to the opening balance of retained earnings and accumulated other comprehensive loss.

The benefit obligation has been measured as of December 31, 2008. The following table sets forth the activity and the funded status of the Gratuity Plan and the amounts recognized in the Company’s consolidated financial statements at the end of the relevant periods:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007(a)</u>
Change in projected benefit obligation:		
Benefit obligation at the beginning of the year	\$1,238,856	\$ 804,968
Impact of change in measurement date	70,123	—
Service cost	308,023	321,862
Interest cost	103,799	48,851
Benefits paid	(256,587)	(246,955)
Divestiture	(210,918)	—
Actuarial loss	112,562	207,567
Effect of exchange rate changes	(264,523)	102,563
Projected benefit obligation at the end of the year	<u>\$1,101,335</u>	<u>\$1,238,856</u>
Unfunded amount—non-current	<u>\$ 620,468</u>	<u>\$ 552,685</u>
Unfunded amount—current	<u>\$ 480,867</u>	<u>\$ 686,171</u>
Total Accrued liability	<u>\$1,101,335</u>	<u>\$1,238,856</u>
Accumulated benefit obligation	<u>\$ 896,985</u>	<u>\$1,035,246</u>

Net gratuity cost includes the following components:

	<u>Year ended December 31,</u>		
	<u>2008</u>	<u>2007(a)</u>	<u>2006(a)</u>
Service cost	\$ 264,681	\$ 321,862	\$ 257,176
Interest cost	89,196	48,851	27,981
Actuarial loss	135,888	16,454	3,248
Net gratuity cost	<u>\$ 489,765</u>	<u>\$ 387,167</u>	<u>\$ 288,405</u>

(a) Amounts include NCOP

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2008**

The amount in accumulated other comprehensive loss that is expected to be recognized as a component of net periodic benefit cost over the next fiscal year is \$72,106. The components of accumulated other comprehensive income that has not been recognized as components of net gratuity cost in the statement of income as of December 31, 2008 is as follows:

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
Net actuarial loss	\$ 206,630	\$ 313,933
Net prior service (credit)/cost	—	—
Accumulated other comprehensive loss, net of tax	<u>\$ 206,630</u>	<u>\$ 313,933</u>

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

	<u>Year ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Discount rate	10.0%	8.7%	8.0%
Rate of increase in compensation levels	8.0%	8.0%	8.0%
Expected benefit payments during the year ending December 31,			
2009			\$ 480,866
2010			\$ 393,040
2011			\$ 414,042
2012			\$ 409,464
2013			\$ 360,953
2014 to 2018			\$ 773,537

The Company maintains both the Exl Service Inc 401(k) Plan and the Inductis 401(k) Profit Sharing Plan, (the “401(k) Plans”) under Section 401(k) of the Internal Revenue Code covering all eligible employees, as defined. The Company may make discretionary contributions of up to a maximum of 3% of employee compensation within certain limits. The Company’s contribution to the 401(k) Plan amounted to \$342,196, \$379,783 and \$149,155 during the years ended December 31, 2008, 2007 and 2006, respectively.

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

Year ended December 31, 2008	\$ 1,891,980
Year ended December 31, 2007	\$ 1,693,753
Year ended December 31, 2006	\$ 1,134,443

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**December 31, 2008**

### 9. Leases

The Company leases motor vehicles for certain of its employees. Such leases are recorded as capital leases with interest rates ranging from 10.5% to 13.5%. Future minimum lease payments under these capital leases at December 31, 2008 are as follows:

Year ending December 31,	
2009	\$ 140,600
2010	126,635
2011	<u>64,279</u>
Total minimum lease payments	331,514
Less: amount representing interest	<u>31,877</u>
Present value of minimum lease payments	299,637
Less: current portion	<u>120,697</u>
Long term capital lease obligation	<u>\$ 178,940</u>

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

Year ending December 31,	
2009	\$ 1,995,367
2010	2,030,893
2011	1,212,494
2012	573,132
2013	573,132
2014 and thereafter	<u>95,522</u>
Total minimum lease payments	<u>\$ 6,480,540</u>

The operating leases are subject to renewal periodically and have scheduled rent increases. The Company accounts for scheduled rent on a straight line basis over the lease period. Rent expense under both cancelable and non-cancelable operating leases was \$5,383,576, \$3,330,464 and \$1,905,216 for the years ended December 31, 2008, 2007 and 2006, respectively. Deferred rent as of December 31, 2008 and 2007 was \$1,537,058 and \$750,376, respectively.

### 10. Income Taxes

The fiscal year under the Indian Income Tax Act ends on March 31. A portion of the Company's Indian operations qualify for deduction from taxable income because its profits are attributable to undertakings situated in Export Processing Zones. This deduction is available for a period of ten consecutive years beginning from the year in which the respective undertaking commenced commercial operations. Accordingly, Exl India and Inductis India can benefit from this deduction. This deduction shall terminate if the Company ceases to be an undertaking situated in Export Processing Zones. ESSPL is not eligible for this deduction.

With respect to the Company's foreign operations, temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases arose due to differences in depreciation rates of fixed assets and provisions for gratuity and vacation pay which are allowable on a cash basis under the Indian Income Tax Act.

**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2008**

Since export revenues of Exl India qualify for a deduction from taxable income until March 31, 2010, a substantial portion of the temporary differences will not have a tax consequence since such differences will be reversed within the tax holiday period.

Income from continuing operations before income taxes consists of the following:

	Year ended December 31,		
	2008	2007	2006
Domestic	\$ (5,926,800)	\$ (4,084,466)	\$ 231,104
Foreign	15,723,692	20,685,231	6,125,378
	<u>\$ 9,796,892</u>	<u>\$ 16,600,765</u>	<u>\$ 6,356,482</u>

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

	Year ended December 31,		
	2008	2007	2006
Current provision:			
Domestic	\$ —	\$ —	\$ 1,547,033
Foreign	724,756	2,789,419	232,402
	<u>\$ 724,756</u>	<u>\$ 2,789,419</u>	<u>\$ 1,779,435</u>
Deferred benefit:			
Domestic	\$(1,819,796)	\$(1,349,305)	\$(2,149,400)
Foreign	(244,701)	(2,413,901)	9,217
	<u>\$(2,064,497)</u>	<u>\$(3,763,206)</u>	<u>\$(2,140,183)</u>
Income tax benefit	<u>\$(1,339,741)</u>	<u>\$ (973,787)</u>	<u>\$ (360,748)</u>

The foreign income tax provision represents current taxes on non-exempt income in India and certain withholding taxes. Significant components of net deferred income tax assets are as follows:

	December 31,	
	2008	2007
Deferred tax assets:		
Tax credit carry forward	\$ 2,108,589	\$ 2,394,919
Accrued expenses and others	411,366	903,309
Unrealized exchange loss	810,060	378,000
Deferred revenue	59,000	1,199,000
Depreciation and amortization	3,515,305	3,102,237
Deferred compensation	3,237,000	2,345,000
Allowance for doubtful debts	54,000	15,000
Deferred rent	262,535	210,996
Total gross deferred tax assets	10,457,855	10,548,461
Deferred tax liabilities:		
Related to Inductis acquisition	—	135,351
Total gross deferred tax liabilities	—	135,351
Valuation allowance	(4,010,106)	(3,917,586)
Net deferred income tax assets	<u>\$ 6,447,749</u>	<u>\$ 6,495,524</u>

**EXLSERVICE HOLDINGS, INC.**  
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Deferred tax assets and liabilities are recognized for future tax consequences attributable to temporary differences between the financial statement carrying values of assets and liabilities and their respective tax bases and operating loss carry forwards. The Company measures deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company recognizes the effect on deferred tax assets and liabilities of a change in tax rates in income in the period that includes the enactment date. The Company determines if a valuation allowance is required or not on the basis of an assessment of whether it is more likely than not that a deferred tax asset will be realized.

The fiscal year under the Indian Income Tax Act ends on March 31 of each year. A portion of the Company's Indian operations qualifies for exemption from taxable income because its profits are attributable to work performed in Export Processing Zones. This exemption is available for a period of ten consecutive years beginning from the year in which the entity commenced commercial operations. Accordingly, Exl India and Inductis India benefit from this deduction. This exemption shall terminate if the Company ceases to operate in Export Processing Zones or by March 2010 when the tax exemption period expires. ESSPL is not eligible for this deduction. The export revenue of Exl India, Inductis India and NCOP qualifies for a deduction from taxable income because its profits are attributable to work performed in Export Processing Zones, and a substantial portion of the temporary differences would not have any tax consequences as they will reverse within the tax holiday period. Pursuant to changes in the Indian Income tax Act from April 1, 2007, the Company has calculated its tax liability after considering the Minimum Alternate Tax ("MAT"). Amounts paid toward MAT can be carried forward and set off against future tax liabilities. In accordance with SFAS 109 "Accounting for Income Taxes" a deferred tax asset of \$2,108,589 and \$2,394,919 has been recognized as of December 31, 2008 and 2007, respectively with respect to such payments.

Deferred tax assets represent the tax effect of temporary differences related to the Company's domestic operations and to the Company's foreign operations that will reverse after the tax holiday period has expired.

The deferred tax benefit is primarily attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and arose due to differences in: (i) depreciation rates of fixed assets, (ii) provisions for gratuity and vacation pay which are allowable on a cash basis under the Indian Income Tax Act with respect to the Company's foreign operations, (iii) deferred compensation, (iv) MAT credit entitlement and (v) deferred revenue with respect to the domestic operations of the Company. At December 31, 2008, the Company performed an analysis of the deferred tax asset valuation allowance for its Indian subsidiary. Based on this analysis, the Company has concluded that a valuation allowance offsetting certain deferred tax assets should continue to be recorded at December 31, 2008 based on the conclusion that it is more likely than not that there will not be sufficient future taxable income to realize the deferred tax assets. The valuation allowance increased by approximately \$92,520, \$721,147 and \$1,443,287 for the years ended December 31, 2008, 2007 and 2006, respectively.

At December 31, 2008 and 2007, no deferred income taxes have been provided for the Company's share of undistributed net earnings of foreign operations due to management's intent to reinvest such amounts indefinitely. The determination of the amount of such unrecognized tax liability is not practical. Those earnings totaled \$53,286,280 and \$36,857,841 as of December 31, 2008 and 2007, respectively."

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

	Year ended December 31,		
	2008	2007	2006
Expected tax provision	\$ 3,429,000	\$ 5,810,000	\$ 2,224,000
Change in valuation allowance	92,520	721,147	1,443,287
Deferred tax benefit	—	(3,116,066)	(1,443,287)
Impact of tax holiday	(5,533,540)	(4,899,033)	(2,616,822)
State taxes, net of Federal taxes	(37,000)	(63,000)	(63,000)
Non-deductible non-cash compensation	639,000	506,000	229,000
Reversal of Bad Debt Reserve	(6,000)	(21,000)	(129,000)
Other	76,279	88,165	(4,926)
Tax provision/(benefit)	<u>\$(1,339,741)</u>	<u>\$ (973,787)</u>	<u>\$ (360,748)</u>

On January 1, 2007, the Company adopted FASB Interpretation No. 48, “*Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109*” (“FIN 48”). FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. Interest and penalties recognized in accordance with the guidance provided in FIN 48, if any, are being classified as interest expense and general and administrative expense, respectively. The Company did not have any unrecognized tax benefits as a result of the adoption of FIN 48. Moreover, during the period, the Company neither had any unrecognized tax benefits nor recognized any uncertain tax benefits. The Company did not recognize any interest or penalties in the Company’s Consolidated Statement of Income nor did it have any such amounts recognized on the Company’s Consolidated Balance Sheets. In addition, the Company did not have any uncertain tax positions that were expected to significantly change within 12 months of the reporting date.

The Indian Finance Act, 2000 provides Exl India and Inductis India with a ten-year holiday from Indian corporate income taxes as an entity exporting IT services from designated software technology parks and export processing zones in India. The Indian Finance Act, 2000 phases out the tax holiday over a ten-year period from fiscal 2000 through fiscal 2009. In May 2008, the Indian government extended the tax holiday by one year from March 31, 2009 to March 31, 2010. Accordingly, facilities set up in India on or before March 31, 2000 have a ten-year tax holiday, new facilities set up on or before March 31, 2001 have a nine-year tax holiday and so forth until March 31, 2010. After March 31, 2010, the tax holiday will no longer be available to new facilities. Exl India and Inductis India provides BPO services from its wholly owned, export oriented units situated in Noida, Gurgaon and Pune, India. The income derived from the services rendered from these facilities is not subject to taxes in India until April 1, 2010. For the years ended December 31, 2008, 2007 and 2006, the effect of the income tax holiday was to reduce the overall income tax provision and increase net income by approximately \$5,533,540, \$4,899,033 and \$2,616,822, respectively, and increase diluted earnings per share by \$0.19, \$0.17 and \$0.11, respectively.

**11. Stock Based Compensation**

In 2003, the Company instituted the ExlService Holdings, Inc. 2003 Stock Option Plan (the “2003 Plan”). The 2003 Plan covers all the employees of the Company and its subsidiaries. The Compensation Committee of the board of directors (the “Committee”) administers the 2003 Plan and grants stock options to eligible employees of the Company and its subsidiaries.

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The Committee determined which employees were eligible to receive options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period for the options issued was determined on the date of the grant and was non-transferable during the life of the option. Options issued under the 2003 Plan expire ten years from the date of grant and generally vest incrementally over a period of four years from the date of grant with 25% of the options vesting each year.

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

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

The Committee determines which employees are eligible to receive the equity awards, the number of equity awards to be granted, the exercise price, the vesting period and the exercise period. The vesting period for the equity award issued is determined on the date of the grant and is non-transferable during the life of the equity award. The options expire ten years from the date of grant and generally vest incrementally over a period of four years from the date of grant with 10% vesting at the end of year one, 20% vesting at the end of year two, 30% vesting at the end of year three and 40% vesting at the end of year four. Pursuant to the 2006 Plan, the Company reserved 3,399,384 shares of common stock (in addition to the available pool of shares from the 2003 plan) for the granting of equity awards. If an employee resigns or is terminated, the employee must exercise any vested options within 90 days after termination or the vested options are forfeited.

At a special meeting of the Company’s stockholders held on January 29, 2009, the Company’s stockholders approved, among other things, an amendment to the Company’s 2006 Omnibus Award Plan to increase the number of shares of its common stock issuable there under by 4,000,000 shares, which brought the total number of shares reserved under the plan to 7,729,238.

Effective January 1, 2006, the Company adopted SFAS No. 123(R), “*Share-Based Payment*” (“SFAS No. 123(R)”) using the modified prospective method of transition. Under the provisions of SFAS No. 123(R), the estimated fair value of share-based awards granted under stock incentive plans is recognized as compensation expense over the vesting period. Using the modified prospective method, compensation expense is recognized beginning with the effective date of adoption of SFAS No. 123(R) for all share based payments (i) granted after the effective date of adoption and (ii) granted prior to the effective date of adoption and that remain unvested on the date of adoption.



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**December 31, 2008**

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

	Year ended December 31,		
	2008	2007	2006
Cost of Revenue	\$ 1,112,475	\$ 1,117,697	\$ 465,303
General and Administrative expenses	2,719,409	2,474,993	1,476,920
Selling and Marketing expenses	1,446,394	713,982	32,043
Total	<u>\$ 5,278,278</u>	<u>\$ 4,306,672</u>	<u>\$ 1,974,266</u>

The fair value of the stock was estimated on the date of grant using third party valuations during the period when the Company was a non-public entity. The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions.

	Year ended December 31,		
	2008	2007	2006
Dividend yield	0%	0%	0%
Expected life (years)	5.52	6.25	6.06
Risk free interest rate	2.43%	4.54%	4.83%
Volatility	39%	50%	50%

The Company estimated the expected term of options granted by taking the average of the vesting term and the contractual term of the option, as illustrated in Staff Accounting Bulletin No. 107 (SAB 107) until December 31, 2007. Effective January 1, 2008, the estimated expected term of options granted has been revised based on historical experience since October 2006, which is representative of the expected term of the options. Effective January 1, 2008, the volatility has been calculated based on the volatility of the Company’s common stock and the volatility of stocks of comparative companies. Prior to this, volatility was calculated based on the volatility of stocks of comparative companies. The risk-free interest rate that the Company uses in the option valuation model is based on U.S. treasury zero-coupon bonds with a remaining term similar to the expected term of the options. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option valuation model. The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and records stock-based compensation expense only for those awards that are expected to vest. All stock-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods.

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

	Number of Shares	Weighted- Average Exercise Price	Aggregate Intrinsic Value	Weighted- Average Remaining Contractual Life (years)
Outstanding at December 31, 2005	1,111,102	\$ 7.05		
Granted	1,170,500	\$ 12.22		
Exercised	(113,063)	\$ 1.33		
Forfeited	<u>(526,349)</u>	<u>\$ 10.77</u>		
Outstanding at December 31, 2006	1,642,190	\$ 10.46		
Granted	462,000	\$ 21.93		
Exercised	(293,715)	\$ 5.59		
Forfeited	<u>(228,660)</u>	<u>\$ 12.40</u>		
Outstanding at December 31, 2007	1,581,815	\$ 14.38		
Granted	469,000	\$ 16.20		
Exercised	(37,219)	\$ 10.33		
Forfeited	<u>(224,845)</u>	<u>\$ 16.59</u>		
Outstanding at December 31, 2008	<u>1,788,751</u>	<u>\$ 14.67</u>	<u>\$ 363,964</u>	<u>7.92</u>
Vested and exercisable at December 31, 2008	<u>544,841</u>	<u>\$ 11.67</u>	<u>\$ 357,139</u>	<u>6.88</u>
Available for grant at December 31, 2008	<u>1,664,110</u>			

The unrecognized compensation cost for unvested options as of December 31, 2008, is \$5,969,332, which is expected to be expensed over a weighted average period of 2.46 years. The weighted-average fair value of options granted during the years ended December 31, 2008 and 2007 was \$6.36 and \$11.89, respectively. The total fair value of shares vested during the year ended December 31, 2008 is \$1,815,478.

The following table summarizes the status of the Company's stock options outstanding and stock options vested and exercisable at December 31, 2008:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>		<u>Options Vested and Exercisable</u>	
	Shares	Weighted- Average Exercise Price	Shares	Weighted- Average Exercise Price
\$0.12 to \$0.17	42,240	\$ 0.12	42,240	\$ 0.12
\$8.00 to \$15.00	1,036,311	11.81	459,481	11.74
\$15.01 to \$24.00	606,200	18.92	29,120	21.04
\$24.01 to \$36.15	104,000	24.20	14,000	24.85
Total	<u>1,788,751</u>	<u>\$ 14.67</u>	<u>544,841</u>	<u>\$ 11.67</u>

Subsequent to December 31, 2008, the Company granted 1,515,889 stock options to its employees and directors.

**EXLSERVICE HOLDINGS, INC.**  
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**Restricted Stock and Restricted Stock Units**

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

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

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

	<u>Restricted Stock</u>		<u>Restricted Stock Units</u>	
	<u>Number</u>	<u>Weighted- Average Intrinsic Value</u>	<u>Number</u>	<u>Weighted- Average Intrinsic Value</u>
Outstanding at December 31, 2005	—	\$ —	—	\$ —
Granted	293,504	9.36	28,000	9.86
Vested	(18,750)	9.86	(4,000)	9.86
Forfeited	(7,484)	8.65	(8,000)	9.86
Outstanding at December 31, 2006	267,270	9.34	16,000	9.86
Granted	459,600	22.34	20,000	23.47
Vested	(77,766)	9.49	(16,000)	9.86
Forfeited	(48,394)	11.90	—	—
Outstanding at December 31, 2007	600,710	19.14	20,000	23.47
Granted	198,304	18.42	24,000	10.26
Vested	(125,883)	16.40	(20,000)	23.47
Forfeited	(94,885)	15.24	—	—
Outstanding at December 31, 2008	<u>578,246</u>	<u>\$ 20.13</u>	<u>24,000</u>	<u>\$ 10.26</u>

As of December 31, 2008, unrecognized compensation cost of \$8,902,168 is expected to be expensed over a weighted average period of 2.6 years. The weighted-average fair value of restricted stock and restricted stock units under the 2006 Plan granted during the years ended December 31, 2008 and 2007 was \$17.72 and \$22.39, respectively.

The number of options and shares of restricted stock have been adjusted to reflect the Stock Split described in Note 7.

The Finance Act of India, 2007 has imposed a Fringe Benefit Tax ("FBT") on equity compensation effective April 1, 2007. The FBT is calculated on the difference between the fair market value as of the vesting date and the exercise price of the equity compensation awards granted to India based employees. For the years ended December 31, 2008 and 2007, the Company recorded FBT expense of \$234,043 and \$267,703, respectively. The

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Company recovers FBT from its India based employees. In accordance with GAAP, the recovery of FBT is treated as additional exercise price and is recorded as an addition to additional paid-in capital in the consolidated balance sheet. No additional compensation expense was recognized as a result of the modification of equity awards with respect to the recovery of FBT.

The weighted-average intrinsic value set forth in the table above for restricted stock granted to employees who are subject to taxation on such grants in India has been reduced to reflect the expense that the Company will incur for FBT upon vesting of such restricted stock.

***Advisory Board Options***

During the year ended December 31, 2008, the Company granted to members of its advisory board options to purchase 20,000 shares of common stock at an exercise price of \$14.85 per share under the 2006 Plan. Using the Black-Scholes valuation model, the fair value of these options at December 31, 2008 was determined to be \$52,066.

In 2005, the Company granted to a member of its advisory board options to purchase 10,000 shares (after giving effect to the Stock Split and Conversion) of common stock at an exercise price of \$11.88 per share under the 2003 Plan. Using the Black-Scholes valuation model, the fair value of these options at December 31, 2008 was determined to be \$31,253.

The options granted to the members of the advisory board are included in the stock option activity table above.

These options vest equally over a period of four years and expire ten years from the grant date. For the years ended December 31, 2008, 2007 and 2006, the Company recorded compensation expense of (\$69,822), \$186,875 and \$247,016, respectively. The fair value and related compensation expense will be remeasured for the unvested portion of these options at the end of each reporting period until such options are fully vested.

***Client Options***

In connection with the execution of a five-year services agreement, the Company issued options to purchase 230,200 shares of common stock (after giving effect to the Stock Split and Conversion) at an exercise price of \$6.25 per share in July 2004 to one of the Company's clients. The options are fully exercisable and expire ten years from the date of grant. The value of the options on the date of issuance, using the Black-Scholes valuation model, was approximately \$1,792,000. Such amount is being amortized as a reduction in revenue over the five-year term of the services agreement. Amortization for the years ended December 31, 2008, 2007 and 2006 was \$358,416, \$358,416, \$358,416, respectively.

**12. Related Party Transactions**

The Company received services in India for employee training performed by a company controlled by Vikram Talwar in periods preceding September 2006. This company is one of the many companies rendering such services to Exl India. For the years ended December 31, 2008, 2007 and 2006, the Company recorded expenses of \$0, \$0 and \$53,194, respectively. At December 31, 2008 and December 31, 2007, the Company had no accounts payable related to these services. The agreement with this company terminated on September 30, 2006.

**EXLSERVICE HOLDINGS, INC.**  
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On January 15, 2008, the Company acquired net assets for a consideration of \$1,508,049 plus contingent consideration earned during the year ended December 31, 2008 of \$460,467 for a total of \$1,968,516 from a company controlled by entities related to the Oak Hill Partnerships. The Company recorded expenses of \$0, \$2,335,677 and \$0 for years ended December 31, 2008, 2007 and 2006, respectively, for transition services performed by the seller prior to acquisition. The Company also recorded an acquisition related cost of \$78,169 for the year ended December 31, 2007. As of December 31, 2008 and December 31, 2007, the Company had a balance payable of \$0 and \$2,413,846, respectively, related to these services.

The Company provides transformation services related primarily to compliance with the Sarbanes-Oxley Act of 2002 to Williams Scotsman, Inc., a provider of mobile and modular building solutions in North America. Williams Scotsman, Inc. was controlled by entities related to the Oak Hill Partnerships until October 31, 2007. The Company recognized \$0, \$424,423 and \$574,877 in the years ended December 31, 2008, 2007 and 2006, respectively, in advisory fee revenue and expense reimbursements from Williams Scotsman, Inc. At December 31, 2008 and December 31, 2007, the Company had no account receivables related to these services.

The Company provides outsourcing services to MedSynergies, Inc., a provider of outsourced billing, claims administration and payment processing services to healthcare providers. MedSynergies, Inc. is controlled by entities related to FTVentures, one of the Company's former significant stockholders and ceased to be a related party to the Company during the three months ended June 30, 2007. For the years ended December 31, 2008, 2007 and 2006, the Company recorded revenue of \$0, \$382,920 and \$537,890, respectively.

The Company provides transformation services to Duane Reade Holdings, Inc., a New York City drugstore chain. Duane Reade Holdings, Inc. was indirectly owned by entities related to the Oak Hill Partnerships, one of the Company's significant stockholders. The Company recognized revenue of approximately \$628,090 \$780,329 and \$477,670 in the years ended December 31, 2008, 2007 and 2006, respectively, for fees and expense reimbursements from Duane Reade Holdings, Inc. At December 31, 2008 and December 31, 2007, the Company had an account receivable of \$88,790 and \$338,629, respectively, related to these services.

The Company provides transformation services to FTVentures, one of the Company's former significant stockholders. During the three months ended June 30, 2007, FTVentures ceased to be a related party to the Company. For the years ended December 31, 2008, 2007 and 2006, the Company recorded revenue of \$0, \$43,349 and \$24,500, respectively for the period FTVentures was a related party.

For the years ended December 31, 2008, 2007 and 2006, the Company accrued management fees of \$0, \$0 and \$160,215 to the Oak Hill Partnerships and FTVentures.

**13. Geographical Information**

	Year ended December 31,		
	2008	2007	2006
<b>Revenues</b>			
United States	\$ 102,569,183	\$ 82,063,200	\$ 61,035,594
United Kingdom	77,806,370	69,526,818	37,325,242
Rest of world (excluding India)	599,579	275,296	318,500
India	738,631	167,219	—
	<u>\$ 181,713,763</u>	<u>\$ 152,032,533</u>	<u>\$ 98,679,336</u>

**EXLSERVICE HOLDINGS, INC.**  
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**December 31, 2008**

	December 31, 2008	December 31, 2007
<b>Fixed assets, net</b>		
India	\$ 19,234,790	\$ 22,323,430
United States	1,181,860	1,746,992
United Kingdom	106,072	54,519
Philippines	3,995,390	17,529
	<u>\$ 24,518,112</u>	<u>\$ 24,142,470</u>

**14. Commitments and Contingencies**

*Fixed Asset Commitments*

At December 31, 2008, the Company had committed to spend approximately \$2,844,798 under agreements to purchase fixed assets. This amount is net of advances paid in respect of these purchases.

*Other Commitments*

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

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

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**Contingencies**

U.S. and Indian transfer-pricing regulations require that any international transaction involving associated enterprises be at an arm's-length price. Transactions among the Company's subsidiaries and the Company may be considered such transactions. Accordingly, the Company determines the pricing among its associated enterprises on the basis of detailed functional and economic analysis involving benchmarking against transactions among entities that are not under common control. If the applicable income tax authorities review any of the Company's tax returns and determine that the transfer price applied was not appropriate, the Company may incur increased tax liability, including accrued interest and penalties. The Company is currently involved in disputes with the Indian tax authorities over the application of some of its transfer pricing policies. The Company has received six assessment orders from the Indian tax authorities with respect to their audit of certain of the Company's subsidiaries. The Indian tax authorities are examining income tax returns for other tax years. The details of the assessment orders as of December 31, 2008 are as below:

Entity	Tax Year	Issue	Amount Demanded	Amount Deposited
Exl India	2003-04	The assessment order alleges that the transfer price the Company applied to transactions between EXL India and EXL Inc. in the 2003-04 tax year was not appropriate and disallows certain expenses claimed as tax deductible by EXL India.	\$1.9 million	\$ 1.9 million
Exl India	2004-05	The assessment order alleges that the transfer price the Company applied to transactions between EXL India and EXL Inc. for the 2004-05 tax year was not appropriate and disallows certain expenses claimed as tax deductible by EXL India.	\$2.0 million	\$ 2.0 million
Exl India	2005-06	The assessment order alleges that the transfer price the Company applied to transactions between EXL India and EXL Inc. for the 2005-06 tax year was not appropriate and disallows certain expenses claimed as tax deductible by EXL India.	\$5.0 million	\$ —
Exl Inc.	2003-04	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$3.0 million	\$ 1.4 million
Exl Inc.	2004-05	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$0.1 million	\$ 0.1 million
Exl Inc.	2005-06	The assessment order alleges that EXL Inc. has a permanent establishment in India.	\$0.7 million	\$ 0.4 million

Based on advice from its Indian tax advisors, the facts underlying its position and its experience with these types of assessments, the Company believes that the probability of loss is remote and accordingly has not accrued any amount with respect to these matters in its consolidated financial statements. The Company does not expect any impact from these assessments on its future income tax expense. The Company is subject to U.S. income taxes on the profits it recognizes in the United States. The Company has deposited the entire amount demanded by the Indian tax authorities with respect to the assessment orders received by Exl India for the 2003-04 and 2004-05 tax years and partial amounts with respect to the assessment orders received by Exl Inc. Subsequent to December 31, 2008, the Company reached agreement with the Indian tax authorities for a deposit of approximately \$1.6 million with respect to the assessment order received by Exl India for the 2005-06 tax year, of which the Company has deposited \$0.8 million to date and expects to deposit the remainder in the near future. There is a likelihood that the Company might receive similar orders for other years until the above disputes are



**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**December 31, 2008**

resolved. Amounts paid as deposits in respect of the assessments described above, totaling \$5.8 million and \$4.3 million as of December 31, 2008 and December 31, 2007, respectively, are included in “Other assets” in the Company’s consolidated balance sheet.

**15. Discontinued Operations**

On August 11, 2008, the Company completed the sale of all of its shares of NCOP for \$3.7 million, subject to certain post-closing adjustments, to Aviva Global Services Singapore Pte Ltd. At closing the Company received \$2.0 million as partial consideration for this sale. The balance consideration of \$1.7 million as of December 31, 2008 is included in “other current assets” in the Company’s consolidated balance sheet as of December 31, 2008 and is expected to be finalized and received by the Company prior to March 31, 2009. For the year ended December 31, 2008 the Company is reporting NCOP as a discontinued operations and all prior period amounts have been recast on a comparable basis. NCOP was previously included in the Outsourcing Services segment.

Income from discontinued operations, net of income taxes, was 3.3 million, or \$0.11 per share, for the year ended December 31, 2008 compared to \$9.5 million, or \$0.32 per share, for the year ended December 31, 2007 and \$7.3 million, or \$0.32 per share for the year ended December 31, 2006.

Prior to its sale, NCOP paid a dividend of \$6.0 million to Exl India, its parent company. A dividend distribution tax of \$1.0 million paid by NCOP is included in the income tax provision for discontinued operations for the year ended December 31, 2008. In addition, the Company incurred a \$0.9 million capital gains tax obligation in India associated with the sale of NCOP. Such amount is included in the income tax provision for discontinued operations for the year ended December 31, 2008.

The following table shows the major categories for discontinued operations in the consolidated statements of income for the years ended December 31, 2008, 2007 and 2006:

	Year Ended December 31,		
	2008	2007	2006
<b>Operations:</b>			
Revenues	\$ 16,398,002	\$ 27,857,323	\$ 23,089,194
Income from discontinued operations	7,235,066	12,551,986	9,756,388
Income tax provision	2,574,731	3,082,952	2,415,822
	<u>\$ 4,660,335</u>	<u>\$ 9,469,034</u>	<u>\$ 7,340,566</u>
<b>Disposal:</b>			
Loss on disposal of discontinued operations	\$ (515,011)	\$ —	\$ —
Income tax provision	874,290	—	—
	<u>\$ (1,389,301)</u>	<u>\$ —</u>	<u>\$ —</u>
Income from discontinued operations, net of taxes	<u>\$ 3,271,034</u>	<u>\$ 9,469,034</u>	<u>\$ 7,340,566</u>

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**EXLSERVICE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
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The following table shows the major categories of assets and liabilities classified in discontinued operations in the consolidated balance sheet at December 31, 2007. No such amounts are applicable at December 31, 2008.

	December 31, 2007
<b>Assets</b>	
Cash	\$ 805,498
Prepaid expenses and other current assets	8,419,562
Deferred tax assets	187,754
Current assets	<u>9,412,814</u>
Fixed assets, net	1,102,133
Deferred tax assets	1,094,886
Other assets	476,663
Non-current assets	<u>2,673,682</u>
Total assets	<u>\$ 12,086,496</u>
<b>Liabilities</b>	
Accrued employee cost	\$ 880,844
Other accrued expenses and current liabilities	1,008,328
Income taxes payable	4,093
Current liabilities	<u>1,893,265</u>
Non-current liabilities	81,643
Total liabilities	<u>\$ 1,974,908</u>

**AMENDED AND RESTATED EMPLOYMENT  
AND NON-COMPETITION AGREEMENT**

**AMENDED AND RESTATED EMPLOYMENT AND NON-COMPETITION AGREEMENT** (this “Agreement”) dated as of December 16, 2008 (the “Effective Date”), by and among **EXLSERVICE HOLDINGS, INC.**, a Delaware corporation (“Holdings” or the “Company”), and together with any subsidiaries of Holdings, the “Companies”), and Vikram Talwar (the “Executive”).

**WITNESSETH:**

A. The Companies and Executive are currently parties to an Employment and Non-Competition Agreement dated as of September 30, 2006 (the “Current Employment Agreement”).

B. The Company desires to continue to employ Executive, and Executive is willing to continue to be employed by the Company, on the terms and conditions set forth in this Agreement, which amends and restates the Current Employment Agreement to reflect Executive’s new title and responsibilities, effective as of the Effective Date.

C. Executive acknowledges that (i) Executive’s continued employment with the Company will provide Executive with trade secrets of and confidential information concerning the Companies and (ii) the covenants contained in this Agreement are essential to protect the business and goodwill of the Companies.

Accordingly, in consideration of the premises and the respective covenants and agreements of the parties set forth below, and intending to be legally bound hereby, the parties agree as follows:

Section 1. Employment. The Company hereby continues to employ Executive, and Executive hereby accepts such continued employment, on the terms and conditions set forth in this Agreement. Executive represents that Executive is not a party to any agreement that restricts Executive’s right or ability to freely carry out Executive’s duties hereunder.

Section 2. Employment Term. Subject to the provisions of Section 7 of this Agreement, this Agreement shall be effective for a period commencing on the Effective Date and ending on December 31, 2009 (the “Initial Employment Term”); provided, however, that the Initial Employment Term shall be automatically extended for successive twelve (12) month periods unless, no later than 120 days prior to the expiration of the Initial Employment Term or any extension thereof, either party hereto shall provide written notice to the other party hereto of its or his desire not to extend the Employment Term hereof (the Initial Employment Term together with any extension shall be referred to hereinafter as the “Employment Term”).

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### Section 3. Duties, Authority, Status and Responsibilities.

(a) Executive shall serve as Executive Chairman of the Company, and in such other position as the Board of Directors of the Company (the “Board”) may from time to time reasonably determine, subject at all times to the direction, supervision and authority of the Board. Executive’s duties shall include such duties as the Board may from time to time reasonably assign, including (i) acting as a strategic advisor to the Company’s Chief Executive Officer (including for matters related to mergers and acquisitions), (ii) providing senior leadership for the sales and marketing and strategic account management initiatives of the Company (for the avoidance of doubt, it is understood that these sales and marketing and strategic account management functions report to the Company’s Chief Executive Officer), and (iii) performing the other duties of the Executive Chairman set forth in the Company’s By-laws. The Company agrees to provide Executive such assistance and work accommodations as are suitable to the character of his positions with the Company and adequate for the performance of his duties. The Executive shall be based at the Company’s executive offices in India.

(b) During the Employment Term and except as otherwise agreed by the Company, Executive shall devote Executive’s full employable time, attention and best efforts to the business affairs of the Companies (except during vacations or illness) and will not actively engage in outside activities, whether or not such activity is pursued for gain, profit or other pecuniary advantage unless such activity (and the amount thereof) is approved by the Board. Executive’s list of approved outside activities with a description of the nature, scope and time commitment for each of such outside activities is attached hereto as Schedule 3(b) (the “Outside Activities”) (it being understood that such approval is based on the descriptions set forth in Schedule 3(b) and the level of activity and the nature of the activities remains consistent with the description set forth therein). The Board may request Executive to take reasonable steps to terminate an affiliation with any entity listed on Schedule 3(b) as promptly as practicable, but, in any event, no later than three (3) months after such request (provided, however, if Executive is required to divest any equity securities, Executive shall have six (6) months from the date of such request to dispose of such securities), if, in the Board’s reasonable determination, Executive’s affiliation with any such entity listed on Schedule 3(b) presents, or would present, a material harm to the reputation, business or prospects of the Company. Subject to Executive’s election or appointment as such, Executive further agrees to serve (without additional compensation) if so designated by the stockholders of the Companies, as applicable, during the Employment Term as a director and a member of any committee of the board of directors of any of the Companies. In addition to the other titles and responsibilities described in this Section 3, if requested by the Board, Executive shall serve (without additional compensation) during the Employment Term as an officer of any of the subsidiaries of the Company.

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#### Section 4. Cash Compensation.

(a) Subject to paragraph (b) below, during the Employment Term, Executive shall receive an annual base salary (the “Base Salary”) of FOUR HUNDRED TWENTY THOUSAND AND 00/100 DOLLARS (\$420,000) (the “Initial Base Salary”). Notwithstanding the provisions of Section 4(b), the Base Salary shall be reviewed no less frequently than annually during the Employment Term for increase, if any, in the sole discretion of the compensation committee of the Board (“Compensation Committee”). The Base Salary shall not be decreased at any time, or for any purpose, during the Employment Term, unless a Company-wide decrease in pay is implemented. In such case, any decrease in the Base Salary shall be no greater, as a percentage of the Base Salary, than the lowest percentage decrease in the base salary of any other member of the Company’s senior management. The Base Salary shall not be less than the base salary of any other employee of the Company subject to section 16 of the Securities Exchange Act of 1934 (the “Exchange Act”), other than those who become employed by the Company by means of an acquisition of a corporation or business and become employees of the Company subject to a preexisting employment arrangement. The Base Salary shall be payable in accordance with the customary payroll practices of the Company for salaried employees.

(b) Executive shall have an opportunity to receive an annual cash bonus equal to 75% of Base Salary at target, with a maximum payment of no greater than 150% of Base Salary. The Compensation Committee shall determine the criteria and thresholds at which the target and maximum bonus shall be earned, as well as the level of attainment of the bonus criteria below which no bonus shall be earned, and the level of attainment at which a bonus of other than 75% or 150% of Base Salary shall be earned. To the extent there are extraordinary events such as acquisitions or dispositions, targets will be amended by the Board to reflect those events. Executive shall be paid Executive’s annual cash bonus (if any) when bonuses are paid generally to senior officers of the Company following completion of the audited financial statements of the Company. Such bonus shall be paid no later than December 31 of the calendar year following the year in which such bonus is earned. In the event the Company becomes subject to Section 162(m) of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder (the “Code”), the Committee may determine to take such action as shall be necessary to preserve the tax deductibility of the bonus. In that event, this Section 4(b) shall construed as necessary to do so.

Section 5. Reimbursement of Expenses. During the Employment Term, Executive shall be entitled to receive prompt reimbursement for all travel and business expenses reasonably incurred by Executive (in accordance with the policies and procedures established from time to time by the Company) in performing services hereunder; provided that Executive shall promptly and properly account therefor in accordance with the Company’s expense policy.

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Section 6. Other Benefits.

(a) Benefit Plans, etc. During the Employment Term, Executive shall (i) be able to participate in all employee benefit plans and programs that are currently made available to the Company's senior executives generally or to its employees generally, including, without limitation, pension, profit-sharing, savings and other retirement plans or programs, medical, dental, hospitalization, short-term and long-term disability and life insurance plans or programs, accidental death and dismemberment protection, travel accident insurance, and any other employee welfare benefit plan or program that may be sponsored by the Company from time to time, whether funded or unfunded, and (ii) receive such additional fringe benefits and perquisites as the Board may, in its sole discretion, from time to time determine; provided, however, that with the exception of the restricted stock award described in Section 6(h) hereunder, such benefits for Executive shall not include any equity compensation awards during the Initial Employment Term, except as may hereafter be awarded at the discretion of the Compensation Committee. Nothing in this Agreement shall be construed to require the Company to establish or maintain any such plans, programs, benefits or perquisites.

(b) Tax Planning Assistance. The Company shall reimburse Executive up to \$12,000 for expenses incurred during the Employment Term in connection with personal tax and estate planning.

(c) Vacations. Executive shall be entitled to four (4) weeks vacation with pay during each year of the Employment Term. Vacations shall not be taken in a manner which will unreasonably interfere with Executive's duties hereunder. Executive shall also be entitled to all paid holidays and personal days given by the Company to its senior executives.

(d) Travel. See Schedule 6 attached hereto.

(e) Transportation. See Schedule 6 attached hereto.

(f) Relocation. If Executive relocates his residence at the request of the Company during the Employment Term, the Company shall, consistent with its relocation policies, as in effect from time to time, reimburse Executive for the cost of relocating himself and his immediate family. Executive also shall be reimbursed for the after-tax costs of maintaining his residence at the Effective Date subsequent to any such relocation so as to permit Executive to have the same after-tax value as though he were not maintaining said residence; provided that Executive shall use his best efforts to mitigate such costs by either renting his existing residence for a market rent (in which case the Company's obligation shall be limited to the costs of maintaining such residence in excess of such rent) or selling such residence at a prevailing market price (in which case the Company's obligation shall cease as of and following the closing of such sale).

(g) Additional Fringe Benefits. During the Employment Term, Executive shall be entitled to additional benefits listed on Schedule 6 hereto.

(h) Equity Awards. Executive shall be eligible to receive stock option and/or restricted stock awards annually during the Employment Term. The Compensation Committee shall have the sole discretion to determine the amount and form of any such subsequent award; provided that in making such determination it shall take into account (i) the grant date value of the 37,500 restricted shares of Series B common stock of Holdings (“Common Stock”) granted to Executive on July 27, 2006 as the “baseline” value for subsequent awards, (ii) the Company’s performance against budget since the grant date of the immediately preceding equity compensation award to Executive and (iii) any changes in market compensation of similarly situated executives since the grant date of the immediately preceding equity compensation award to Executive. The definitive terms of each such subsequent equity compensation award shall be set forth in a restricted stock or stock option agreement, as applicable, between Executive and the Company substantially in the form of Exhibit A or Exhibit B attached hereto, as applicable, except that (i) the vesting shall be on an annual ratable basis over four years commencing on the date of grant of the award, (ii) the exercise price of a stock option shall be the fair market value of the stock subject to such option on the date of grant and (iii) such terms may be changed by the mutual agreement of Executive and the Company.

(i) Timing of Certain Payments. To the extent that any reimbursements pursuant to Sections 5 or 6 are taxable to Executive, any such reimbursement payment due to Executive shall be paid to Executive as promptly as practicable, and in all events on or before the last day of Executive’s taxable year following the taxable year in which the related expense was incurred. The reimbursements pursuant to Sections 5 or 6 are not subject to liquidation or exchange for another benefit and the amount of such benefits and reimbursements that Executive receives in one taxable year shall not affect the amount of such benefits or reimbursements that Executive receives in any other taxable year.

Section 7. Termination. The Employment Term and Executive’s employment hereunder may be terminated under the following circumstances:

(a) Death. The Employment Term and Executive’s employment hereunder shall terminate upon Executive’s death. In that event, Executive’s estate shall be entitled to a lump sum payment in cash equal to the sum of all accrued cash obligations owing to Executive, plus an amount equal to a pro-rata portion of the projected bonus amount for the year during which the death occurs, as reasonably determined by the Compensation Committee. Following any termination of Executive’s employment hereunder pursuant to this Section 7 (a), other than as set forth in Section 7(g) the Company shall have no further obligation to pay any compensation or provide any benefits, except as expressly set forth herein.

(b) Disability. Either Party may terminate Executive’s employment hereunder for Disability. “Disability” shall mean Executive’s inability, due to physical or mental incapacity, to substantially perform Executive’s duties and responsibilities under this Agreement for a period of 180 consecutive days. In conjunction with determining Disability for purposes of this Agreement, Executive



hereby (i) consents to any such examinations which are relevant to a determination of whether Executive is mentally and/or physically disabled and (ii) agrees to furnish such medical information as may be reasonably requested, and to waive any applicable physician-patient privilege that may arise because of such examination. Not more than 30 days following any termination of Executive's employment hereunder pursuant to this Section 7(b), the Company shall make a lump sum payment in cash to Executive equal to the sum of all accrued cash obligations owing to Executive, plus an amount equal to a pro-rata portion of the projected bonus amount for the year during which the Disability occurs.

In the event of Executive's physical or mental incapacity which the Board reasonably determines is likely to result in a Disability, the Company may temporarily remove Executive's job title and relieve him of his responsibilities until the time when Executive returns to his employment in the same capacity as prior to such incapacity or is terminated in accordance with this Section 7(b), and such removal of title shall not constitute the removal of title (as contemplated by clause (B) of Section 7(d)) for the purpose of determining "Good Reason" (as defined below). Notwithstanding the foregoing, if Executive resumes his duties within 180 days of such incapacity, his title and position shall be reinstated.

(c) Termination for Cause; Voluntary Termination; Expiration of the Employment Term . The Employment Term and Executive's employment hereunder may be terminated (i) by the Company for "Cause" (as defined below) by written notice, specifying the grounds for Cause in reasonable detail, and (ii) by Executive "voluntarily" (that is, other than for Disability or Good Reason in accordance with Section 7(b) or 7(d)). Executive's employment shall be terminated at the end of the Employment Term following either party hereto giving the other a notice of its or his desire not to extend the Employment Term in accordance with Section 2. "Cause" shall mean:

(A) a final non-appealable conviction of, or a pleading of no contest to, (i) a crime of moral turpitude which causes serious economic injury or serious injury to the Company's reputation or (ii) a felony; or

(B) fraud, embezzlement, gross negligence, self-dealing, dishonesty or other gross and willful misconduct which has caused serious and demonstrable injury to the Company;

(C) material violation by Executive of any material Company policy;

(D) willful and continuing failure to substantially perform Executive's duties (other than for reason of physical or mental incapacity) which failure to perform continues beyond fifteen (15) days after a written demand for substantial improvement in Executive's performance, identifying specifically and in detail the manner in which improvement is sought, is delivered to Executive by the Company; provided that a failure to achieve performance objectives shall not by itself constitute Cause and no act or failure to act by Executive shall be considered "willful" unless done or failed to be done by Executive in bad faith and without a reasonable belief that Executive's actions or omission was in the best interest of the Company;

(E) Executive's failure to reasonably cooperate in an investigation involving the Company by any governmental authority;

(F) Executive's material, knowing and intentional failure to comply with applicable laws with respect to the execution of the Company's business operations, including, without limitation, a knowing and intentional failure to comply with the Prevention of Corruption Act of India, 1988, or the United States Foreign Corrupt Practices Act of 1977, as amended; provided, that, if all of the following conditions exist, there will be a presumption that Executive has acted in accordance with such applicable laws: Executive is following, in good faith, the written advice of counsel, such counsel having been approved by the Board as outside counsel to the Company for regulatory and compliance matters, in the form of a legal memorandum or a written legal opinion, and Executive has, in good faith, provided to such counsel all accurate and truthful facts necessary for such counsel to render such legal memorandum or written legal opinion;

(G) Executive's failure to follow the lawful directives of the Board which is not remedied within fifteen (15) days after Executive's receipt of written notice from the Company specifying such failure;

(H) Executive's use of alcohol or drugs which materially interferes with the performance of his duties; or

(I) Executive's failure to take the reasonable steps necessary to terminate his affiliation with any entity listed on Schedule 3(b) within six months after being requested by the Board, pursuant to Section 3(b) hereof, to take such action.

Following any termination or expiration of the Employment Term and Executive's employment hereunder pursuant to this Section 7(c), other than as set forth in Section 7(g) Executive shall not be entitled to receive any further compensation or payments under the Agreement (except for Base Salary relating to Executive's services prior to the termination date).

(d) Termination for Good Reason or Without Cause. The Employment Term and Executive's employment hereunder may be terminated (i) by Executive for Good Reason and (ii) by the Company "Without Cause" (that is, other than for Disability or Cause in accordance with Section 7(b) or 7(c)). "Good Reason" shall mean the occurrence, without Executive's prior written consent, of any of the following events:

(A) a substantial reduction of Executive's duties or responsibilities, or Executive being required to report to any person other than the Board, provided that, if there is a "Change of Control" (as defined below) and Executive retains similar title and similar authority with the Company or any entity that acquires the Company (or any affiliate or subsidiary of such entity) following such Change of Control, the parties agree that any change in the title of Executive shall not constitute a significant reduction of Executive's duties and authorities hereunder;

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(B) Executive's job title as an officer of the Company is adversely changed, provided that if there is a Change of Control and Executive retains similar title and similar authority with the Company or any entity that acquires the Company (or any affiliate or subsidiary of such entity) following such Change of Control, the parties agree that any change in the title of Executive shall not constitute a significant reduction of Executive's duties and authorities hereunder;

(C) a reduction of Executive's then Base Salary or annual cash bonus opportunity to below 75% of Base Salary at target other than that described in Section 4(a);

(D) a change in the office or location where Executive is based on the Effective Date of more than thirty (30) miles, which new location is more than thirty (30) miles from Executive's primary residence; or

(E) a breach by the Company of any material term of the Employment Agreement;

provided that, a termination by Executive with Good Reason shall be effective only if, within 30 days following Executive's first becoming aware of the circumstances giving rise to Good Reason, Executive delivers a "Notice of Termination" (as defined in Section 7(i)) for Good Reason by Executive to the Company, and the Company within 15 days following its receipt of such notification has failed to cure the circumstances giving rise to Good Reason.

(e) Severance. If Executive's employment hereunder is terminated pursuant to Section 7(d) hereof, Executive will be entitled to:

(i) 24 months of Base Salary plus payment of Executive's actual bonus earned for year of termination as determined in accordance with the Company's annual incentive plan as if Executive had been employed for the full year in which Executive terminates, such Base Salary to be paid ratably for 24 months in accordance with Company's existing payroll practices (such payment to begin as soon as practicable, and in all events within 30 days following termination of employment) and such actual bonus, if any, to be paid ratably over the remaining period and number of Base Salary payments hereunder, commencing after the Compensation Committee has determined such bonus amount (such payment to begin as soon as practicable, and in all events within 30 days following the determination of the bonus amount), provided that if amounts paid under this Section 7(e) are determined to be "deferred compensation" within the meaning of Section 409A of the Code (" Section 409A ") and Executive is deemed to be a "specified employee" as defined

in Section 409A(a)(2)(B)(i) of the Code and the regulations issued thereunder relating to deferred compensation, then any payments due hereunder in respect of the six months immediately following Executive's termination of employment shall be paid in a single lump sum on the Company's first regularly scheduled pay date occurring more than six months following Executive's termination of employment;

(ii) continuation of life insurance coverage provided pursuant to Section 6(a) for the eighteen (18) month period following termination of employment so long as such continuation of coverage is permitted under the Company's benefit plans and applicable law; provided, that, such coverage shall terminate if Executive commences employment with a subsequent employer within the applicable period; and

(iii) the benefits set forth in Section 7(g).

(f) Termination Following a Change of Control. Notwithstanding anything in this Section 7 to the contrary, if Executive's employment is involuntarily terminated by the Company without Cause or Executive terminates employment for Good Reason within 12 months following a Change of Control, then Executive shall receive, in complete satisfaction of all payments (including severance) due under this Agreement, (i) Base Salary relating to Executive's services prior to the termination date and (ii) a lump sum payment of \$999,000. The payments referred to in subclauses (i) and (ii) of this Section 7(f) shall be paid as soon as practicable, and in all events within thirty (30) days following termination of employment; provided that if the Change of Control does not satisfy the definition of a change in the ownership or effective control of a corporation, or a change in the ownership of a substantial portion of the assets of a corporation pursuant to Section 409A, then the payment referred to in subclause (ii) of this Section 7(f) will be paid ratably for 24 months in accordance with Company's existing payroll practices, such payment to begin as soon as practicable, and in all events within 30 days following termination of employment; provided, further, that if amounts paid under this Section 7(f) are determined to be "deferred compensation" within the meaning of Section 409A and Executive is deemed to be a "specified employee" as defined in Section 409A(a)(2)(B)(i) of the Code and the regulations issued thereunder relating to deferred compensation, then the payment referred to in subclause (i) of this Section 7(f) and the first of the ratable payments referred to in subclause (ii) of this Section 7(f) shall be paid on the Company's first regularly scheduled pay date occurring more than six months following Executive's termination of employment (the remainder of the ratable payments referred to in subclause (ii) to continue to be paid ratably in accordance with such subclause). In addition, upon a termination of employment described in this Section 7(f), (iii) Executive shall receive the benefits set forth in Section 7(g) and (iv) all unvested equity awards granted on or after the Effective Date and held by Executive shall become fully vested and, in the case of stock options, exercisable.

(g) Post-Termination Health Insurance. Upon the cessation of Executive's employment hereunder for any reason other than termination by the Company for Cause or a voluntary termination by Executive (in each case under Section 7(c)), the Company shall pay on behalf of Executive and his eligible dependents the cost of continued coverage under the Company's group health plan for eighteen (18) months following such cessation in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), subject to such persons making timely elections to continue such coverage pursuant to COBRA and satisfaction of COBRA's eligibility requirements and other terms, conditions, restrictions and exclusions. Should COBRA coverage become unavailable due to the Company's failure to maintain a group health plan, the Company shall reimburse Executive and his dependents for the premium cost of comparable coverage obtained directly by Executive and his dependents for the balance of the 18 month period. The Company's obligation to pay such premium costs shall cease at the time Executive (or, in the case of Executive's death, his eligible dependents) become eligible for comparable health benefits from another employer. For purposes of clarity, it is understood that the preceding two sentences shall apply if Executive's employment ceases upon the natural expiration of the Employment Term as described in Section 2. In addition, if Executive elects COBRA coverage following the cessation of his employment for any reason whatsoever (whether paid by the Company or Executive), the Company will, at the request of Executive, facilitate and use commercially reasonable efforts to cause the conversion of his Company group health insurance coverage to an individual policy upon the expiration of Executive's eligibility for COBRA coverage; provided that the foregoing is not intended to be a guarantee by the Company that such conversion will be available to Executive at that time. Any payment made to Executive under Section 7(e)(ii) or under this Section 7(g) (to the extent such payments are treated as "deferred compensation" within the meaning of Section 409A) shall be paid as soon as practicable following submission of the claims but in any event not later than the third calendar year following the calendar year in which Executive's "separation from service" (as defined in Section 409A) occurs.

(h) As used in this Agreement, "Change of Control" means

(i) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (a "Person") of beneficial ownership (within the meaning of Rule 13d 3 promulgated under the Exchange Act) of more than 50% (on a fully diluted basis) of either (A) the then outstanding shares of Common Stock, taking into account as outstanding for this purpose such Common Stock issuable upon the exercise of options or warrants, the conversion of convertible stock or debt, and the exercise of any similar right to acquire such Common Stock (the "Outstanding Company Common Stock") or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this Plan, the following acquisitions shall not constitute a Change of Control: (I) any acquisition by the Company or (i) any entity that directly or indirectly is controlled by, controls or is under common control with the Company and (ii) to the extent provided by the Compensation Committee, any entity in which the Company has a significant equity interest ("Affiliate") on the Effective Date, (II) any

acquisition by any employee benefit plan sponsored or maintained by the Company or any Affiliate, (III) any acquisition by one or more of Oak Hill Partners L.P., FTVenture, any affiliate of either of them, or any group of which either of them is a member (a “Designated Holder”), (IV) any acquisition which complies with clauses (A), (B) and (C) of subsection (v) of this Section 7(h), or (V) in respect of an Award held by a particular Participant, any acquisition by the Participant or any group of persons including the Participant (or any entity controlled by the Participant or any group of persons including the Participant);

(ii) individuals who, on the date hereof, constitute the Board (the “Incumbent Directors”) cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the date hereof, whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by a specific vote or by approval of a registration statement of the Company describing such person’s inclusion on the Board, or a proxy statement of the Company in which such person is named as a nominee for director, without written objection to such nomination) shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to directors or as a result of any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board shall be deemed to be an Incumbent Director;

(iii) the dissolution or liquidation of the Company;

(iv) the sale, transfer or other disposition of all or substantially all of the business or assets of the Company; or

(v) the consummation of a reorganization, recapitalization, merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company that requires the approval of the Company’s stockholders, whether for such transaction or the issuance of securities in the transaction (a “Business Combination”), unless immediately following such Business Combination: (A) more than 50% of the total voting power of (x) the entity resulting from such Business Combination (the “Surviving Company”), or (y) if applicable, the ultimate parent entity that directly or indirectly has beneficial ownership of sufficient voting securities eligible to elect a majority of the members of the board of directors (or the analogous governing body) of the Surviving Company (the “Parent Company”), is represented by the Outstanding Company Voting Securities that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which the Outstanding Company Voting Securities were converted pursuant to such Business Combination), and

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such voting power among the holders thereof is in substantially the same proportion as the voting power of the Outstanding Company Voting Securities among the holders thereof immediately prior to the Business Combination, (B) no Person (other than any employee benefit plan sponsored or maintained by the Surviving Company or the Parent Company, or one or more Designated Holders), is or becomes the beneficial owner, directly or indirectly, of more than 50% of the total voting power of the outstanding voting securities eligible to elect members of the board of directors of the Parent Company (or the analogous governing body) (or, if there is no Parent Company, the Surviving Company) and (C) at least a majority of the members of the board of directors (or the analogous governing body) of the Parent Company (or, if there is no Parent Company, the Surviving Company) following the consummation of the Business Combination were Board members at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination.

(i) Notice of Termination . No termination of Executive's employment by the Company or by Executive (other than Termination pursuant to Section 7(a)) shall be effective until written notice of termination (the "Notice of Termination") has been given to the other Party hereto in accordance with Section 8. In the case of a termination by the Company without Cause, such notice shall be given not less than fifteen (15) business days prior to the termination date. If the Board concludes it is prepared to immediately terminate Executive for Cause (other than due to the conviction of Executive of a felony), the Board shall put Executive on a leave of absence during which time Executive will forfeit his title and responsibilities but will be provided with an opportunity to appear before the Board, at Executive's election, to present arguments and evidence on his own behalf, at a date and time specified in the Notice of Termination. Following such hearing, the Board, by an affirmative vote of a majority of its members (not to include Executive if Executive is a member of the Board), shall make a final determination that the action or inaction by Executive specified in the Notice of Termination constitutes or does not constitute termination for Cause. If the Board determines that Executive is not terminated for Cause, the Board shall take any reasonable steps necessary to reinstate Executive in his prior position, with the same title and responsibilities that Executive held prior to receiving the Notice of Termination for Cause described herein.

(j) Date of Termination . "Date of Termination" shall mean (i) if Executive's employment is terminated by Executive's death, the date of Executive's death, (ii) if Executive's employment is terminated for Cause in accordance with Section 7(c), the date specified in the Notice of Termination, (iii) if Executive's employment is terminated due to the expiration of the Employment Term as described in Section 7(c), the date that the Employment Term expires, and (iv) if Executive's employment is terminated for any other reason, fifteen (15) business days after the date on which a Notice of Termination is delivered.



Section 8. Notice. All notices or other communications hereunder shall be in writing and shall be deemed to have been duly given (a) when delivered personally, (b) on the second business day following the day such notice or other communication is sent, for next-day or next-business-day delivery, by a nationally-recognized overnight courier, (c) when sent by facsimile if the date of delivery is a business day, or otherwise on the next business day, or (d) on the fifth day following the date of deposit in the United States mail if sent first class, postage prepaid, by registered or certified mail; provided that in the case of delivery in accordance with Section 7(c) or 7(d), a written acknowledgment of receipt is obtained.

The address for any notice to Executive shall be:

Vikram Talwar  
No. 86 Sector 15A  
Noida, U.P. 201301  
INDIA

with a copy to:

Vikram Talwar  
A 48, Sector 58  
Noida, U.P. 201301  
INDIA

with a copy to:

Thelen Reid & Priest LLP  
875 Third Avenue  
New York, NY 10022  
Main: (212) 603-2000  
Fax: (212) 603-2001  
Attn: Bruce Rich, Esq.

to the Company:

ExlService Holdings, Inc.  
350 Park Avenue, 10th Floor  
New York, NY 10022  
Fax: (212) 892-1534  
Attn: General Counsel

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and to Oak Hill:

Oak Hill Partners Inc.  
One Stamford Plaza  
263 Tresser Blvd., 15th Floor  
Stamford, CT 06901  
Fax: (203) 328-1651  
Attention: Steven Gruber

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP  
1285 Avenue of the Americas  
New York, New York 10019-6064  
Fax: (212) 492-0237  
Attention: Lawrence I. Witdorhich, Esq.

with a copy to:

Oak Hill Capital Management, Inc.  
Park Avenue Tower  
65 East 55<sup>th</sup> Street, 32nd Floor  
New York, NY 10022  
Fax: (212) 758-3572  
Attention: John R. Monsky, Esq.

or such other address or fax number as such Party has designated by notice given to the other Party in accordance with this Section.

Section 9. Covenant Not To Compete .

(a) Executive acknowledges that the services he is to render to the Company are of a special and unusual character, with a unique value to the Company, the loss of which cannot adequately be compensated by damages or an action at law. In view of the unique value to the Companies of the services of Executive for which the Company has contracted hereunder, because of the confidential information to be obtained by, or disclosed to, Executive as herein above set forth, and as a material inducement to the Company to enter into this Agreement and to pay to Executive the compensation stated herein and any additional benefits stated herein, and other good and valuable consideration, Executive covenants and agrees that during the Employment Term and during the "Non-Competition Period," as defined below, Executive shall not, directly or indirectly, enter into the employment of, tender consulting or other services to, acquire any interest in (whether for Executive's own account as an individual proprietor, or as a partner, associate, stockholder, officer, director, trustee or otherwise), or otherwise participate in any business that competes, directly or indirectly, with any of the Companies (i) in the same lines of business in the business process outsourcing industry that the Companies are engaged in at the time Executive's employment is terminated, or

if Executive is an employee of any of the Companies, at the time Executive is accused of being in competition with any of the Companies pursuant to this Section 9; (ii) in the provision of the business processes provided by the Companies at the time Executive's employment is terminated, or if Executive is an employee of any of the Companies, at the time Executive is accused of being in competition with any of the Companies pursuant to this Section 9; (iii) in the provision of business processes that any of the Companies have taken substantial steps to provide to customers at the time Executive's employment is terminated, or if Executive is an employee of any of the Companies, at the time Executive is accused of being in competition with any of the Companies pursuant to this Section 9; or (iv) in the provision of business processes that any of the Companies are in the process of marketing to existing or potential clients that any of the Companies are taking measures to retain as clients of the Companies, at the time Executive's employment is terminated, or if Executive is an employee of any of the Companies, at the time Executive is accused of being in competition with any of the Companies pursuant to this Section 9, during the Employment Term. Executive and the Company acknowledge that clauses (ii), (iii) and (iv) in the immediately preceding sentence shall not be deemed or interpreted to narrow or otherwise limit the scope of clause (i) of such sentence. Notwithstanding the foregoing, in the event Executive voluntarily terminates employment other than for Good Reason, Executive shall be restricted from engaging in any business processing outsourcing business for one year from the Date of Termination. For purposes of this Section 9, the "Non-Competition Period" shall be the one year period following Executive's termination of employment for any reason; provided that, notwithstanding the above, if Executive's employment is terminated at the end of the Employment Term following the Company's giving Executive a notice of its desire not to extend the Employment Term in accordance with Section 2, the Non-Competition Period, and this Section 9(a), shall not apply following such termination of employment, unless, in the sole discretion of the Company, the Company continues to pay Executive the Base Salary in effect at the time of termination for one year following termination.

(b) Notwithstanding the foregoing, nothing in this Agreement shall prevent (A) the purchase or ownership by Executive of up to two percent (2%) in the aggregate of any class of securities of any entity if such securities (i) are listed on a national securities exchange or (ii) are registered under Section 12(g) of the Exchange Act; or (B) the direct or indirect ownership of securities of a private company, provided that, Executive is only a passive investor in such company (having no role, duty or responsibility whatsoever in the management, operations or direction of such company) and owns no more than five percent (5%) in the aggregate of any securities of such company. If Executive's employment with the Company is terminated for any reason, and after such termination Executive wishes to take any action, including without limitation, taking a position with another company, which action could potentially be deemed a violation of this Section 9, Executive shall have the right, after providing the Board with all relevant information, to request a consent to such action from the Board which consent shall not be unreasonably withheld. The Board shall respond to Executive's request by granting or denying such consent within not more than 30 calendar days from the date the Company receives written notice of such request from Executive. If Executive disagrees with the Board's decision relating to the consent, then a third-party arbitrator (the "Arbitrator") shall be appointed within five (5) days of the

date Executive notifies the Company of his disagreement, and the third party Arbitrator shall be instructed to make a determination with respect to whether Executive's action would constitute a legally valid and enforceable violation of Section 9 within not more than thirty (30) days of his appointment and such determination shall be binding on all of the parties hereto. The cost of the Arbitrator shall be borne by the Company; provided, however, if the Arbitrator's determination is inconsistent with Executive's position, then the cost of the Arbitrator shall be borne by Executive.

Section 10. Confidential Information.

(a) Protection of Confidential Information. Executive acknowledges that the Companies have a legitimate and continuing proprietary interest in the protection of their confidential information and that they have invested substantial sums and will continue to invest substantial sums to develop, maintain and protect such confidential information. During the Employment Term and at all times thereafter, Executive shall not, except with the written consent of the Company or in connection with carrying out Executive's duties or responsibilities hereunder, furnish or make accessible to anyone or use for Executive's own benefit any trade secrets, confidential or proprietary information of any of the Companies, including their business plans, marketing plans, strategies, systems, programs, methods, employee lists, computer programs, insurance profiles and client lists; provided, however, that such protected information shall not include either information required to be disclosed under law or pursuant to an order of a court, governmental agency, arbitration panel or other person or body with apparent jurisdiction or information known to the public or otherwise in the public domain without violation by Executive of this Section 10.

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

Section 11. Non-Disparagement; Non-Solicit.

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

in their capacity as officers and directors of the Company) shall make no Disparaging Statement about Executive; provided that any officer or director may give truthful testimony before a court, governmental agency, arbitration panel, or similar person or body with apparent jurisdiction and may discuss such matters in confidence with their or the Company's attorney(s) and other professional advisors.

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

#### Section 12. Miscellaneous.

(a) Mitigation. Executive shall have no duty to mitigate his damages by seeking other employment and, should Executive actually receive compensation from any such other employment, the payments required hereunder shall not be reduced or offset by any other compensation except as specifically provided herein.

(b) Limitation of Shareholder Liability. Executive hereby acknowledges that the shareholders of Holdings are entitled to limited liability under the laws of the State of Delaware applicable to corporations and as such Executive shall not, nor shall he have the right to, make any claim against the shareholders of Holdings relating to any contest or dispute under this Agreement.

(c) Waiver. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in a writing signed by Executive and an officer of the Company (other than Executive) duly authorized by the Board to execute such amendment, waiver or discharge. No waiver by either party to this Agreement at any time of any breach of the other party of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

(d) Successors and Assigns. This Agreement shall be binding on and inure to the benefit of the successors and assigns of the Company.

(e) Governing Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York, without regard to the conflict of laws principles of such State which could cause the application of the laws of any other state.

(f) Consent to Jurisdiction and Service of Process. Any claim for injunctive relief pursuant to Sections 9, 10, 11 or 12(k) under this Agreement shall be instituted exclusively in any Federal court of the Southern District of New York or any state court located in New York County, State of New York, and each party agrees not to assert, by way of motion, as a defense or otherwise, in any such claim, any claim that it is not subject personally to the jurisdiction of such court, that the claim is brought in an inconvenient forum, that the venue of the claim is improper or that this Agreement or the subject matter hereof may not be enforced in or by such court. Each party further irrevocably submits to the jurisdiction of such court in any such claim. Any and all service of process and any other notice in any such claim shall be effective against any party if given personally or by registered or certified mail, return receipt requested, or by any other means of mail that requires a signed receipt, postage prepaid, mailed to such party as herein provided. Nothing herein contained shall be deemed to affect the right of any party to serve process in any manner permitted by law or to commence legal proceedings or otherwise proceed against any other party in any other jurisdiction.

(g) Dispute Resolution. Any dispute, controversy or other claim, other than claims solely for injunctive relief pursuant to Section 9, 10, 11 or 12(k), arising out of or relating to (i) this Agreement, or (ii) Executive's employment with the Company shall be resolved by binding confidential arbitration, to be held in New York, New York in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Executive agrees that it shall not bring any claim or action against the Company's directors, officers or shareholders and shall not be entitled to any punitive, special or consequential damages in connection with any such claim, dispute or controversy. In connection with any claim or action brought by any of the Companies or any of their respective directors or, officers or shareholders against Executive, no such person shall be entitled to any punitive, special or consequential damages.

(h) Assignment. This Agreement is a personal contract, and the rights and interests of Executive hereunder may not, during the Employment Term, be sold, transferred, assigned, pledged or hypothecated. This Agreement may not be assigned by the Company other than to a company (i) which, directly or indirectly controls, is controlled by or is under common control with the Company, or which is a successor in interest to substantially all of the business operations of the Company, and (ii) which assumes in writing or by operation of law, at the time of the assignment, the Company's obligation to perform this Agreement; and (iii) which has sufficient capitalization to enable it to meet its assumed obligation to perform this Agreement.

(i) Severability of Invalid or Unenforceable Provisions. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

(j) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

(k) Injunctive Relief; Damages. Executive acknowledges that damages for any breach of Sections 9 through 11 of this Agreement may be difficult to determine and inadequate to remedy the harm which may be caused and, therefore, consents that such Sections may be enforced by temporary or permanent injunction. Such injunctive relief shall be in addition to and not in place of any other remedies available at law or equity, including damages. Should any court or tribunal decline to enforce such sections of this Agreement on the basis that such provisions are overly restrictive of activities of Executive as to time, scope or geography, such provisions shall be deemed to be modified to restrict Executive's activities to the maximum extent of time, scope and geography which such court or tribunal shall find enforceable, and such provisions shall be so enforced.

(l) Entire Agreement. This Agreement sets forth the entire agreement of the Companies and Executive in respect of the subject matter contained herein and supersedes all prior agreements (including, but not limited to, the Current Employment Agreement as in effect prior to the Effective Date), promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of either party to this Agreement hereto and any prior agreement of the parties hereto in respect of the subject matter contained herein.

(m) Beneficiaries/References. Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit hereunder following Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of Executive's incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to Executive's beneficiary, estate or other legal representative.

(n) Withholding; Tax Equalization. The Company shall be entitled to withhold from any payment due to Executive hereunder any amounts required to be withheld by applicable tax laws or regulations. The Company shall provide Executive such additional compensation, if any, as is reasonably necessary to ensure that Executive's total compensation, benefits and bonus payments have the same after-tax value as if Executive were employed in and subject to taxation only in the United States; provided, that, as Executive has located, at the request of the Company, from his residence to India, the Company shall reimburse Executive for the amount of the overall increase in his tax liabilities as a result of his relocation to India and the fact that he is subject to Indian taxation. These equalization payments shall include a tax restoration payment that takes into account the impact of the reimbursements. Executive agrees that if he receives a refund or other credit on his taxes, he shall repay the Company any amount in excess of the amount necessary such that the after-tax amount retained by Executive is equal to the amount he would have retained had he remained employed in the United States.



(o) Registration of Shares. The Company shall, when eligible, register on Form S-8 or such other appropriate form the resale of shares of Common Stock owned by Executive pursuant to the grant or exercise of equity compensation awards held by Executive on the Effective Date or underlying equity compensation awards granted to Executive during the Employment Term. This is in addition to any registration rights Executive has under any other contract with the Company.

(p) Directors' Slate. Executive's name shall be included on the Company's recommended slate of directors for each stockholders meeting during the Employment Term at which Executive is eligible for reelection to the Board; provided, however, that Executive agrees to consult in good faith with the Board regarding Executive's continued service on the Board if and to the extent the Board determines that prevailing standards of corporate governance provide that it is not appropriate for an officer of the Company to serve on the Board. Executive agrees to tender resignation from the Board upon termination of employment. In the case of Executive's termination for any reason other than by the Company for Cause, if and only if Executive continues to own 4% of the Common Stock, Executive may, subject to the approval of the Board in its sole reasonable determination, designate an individual to be included on the Company's recommended slate of directors for the next stockholders' meeting at which directors of the Company are to be elected; provided that this sentence shall cease to apply on and following the time that any equity securities of the Company become listed for trading on a national securities exchange or other quotation or trading system.

(q) Legal Fees. Upon the execution of this Agreement, the Company agrees to pay on behalf of Executive all legal fees and expenses incurred by Executive in connection with the negotiation, drafting, and execution of this Agreement which, when aggregated with any similar fees incurred by Rohit Kapoor and paid by the Company in connection with the negotiation, drafting and execution of an employment agreement for Mr. Kapoor with the Company, do not exceed \$25,000.

(r) Indemnification. The Company shall indemnify and defend Executive to the fullest extent permitted by the law of the State of Company's incorporation and the By-Laws and Certificate of Incorporation of the Company with respect to any claims that may be brought against Executive arising out of any action taken or not taken in Executive's capacity as an officer or director of the Company; provided, that, the Company shall not indemnify and defend Executive with respect to any claims brought against Executive relating to intentional or willful acts of the Executive, or to other acts as to which indemnification is not allowable under applicable law. In addition, Executive shall be covered, in respect of Executive's activities as an officer or director of the Company, by the Company's Directors and Officer liability policy or other comparable policies obtained by the Company's successors, to the fullest extent permitted by such policies. Notwithstanding the foregoing, the Company's responsibilities under this Section 12(r) shall not apply to any claims raised against Executive after the sixth anniversary of his termination of employment. It is intended that any indemnification payment or advancement of expenses made hereunder shall be exempt from Section 409A. Notwithstanding the foregoing, if any indemnification payment or advancement of expenses made hereunder shall be determined to be "deferred

compensation” within the meaning of Section 409A, then (i) the amount of the indemnification payment or advancement of expenses during one taxable year shall not affect the amount of the indemnification payments or advancement of expenses during any other taxable year, (ii) the indemnification payments or advancement of expenses must be made on or before the last day of Executive’s taxable year following the year in which the expense was incurred, and (iii) the right to indemnification payments or advancement of expenses hereunder is not subject to liquidation or exchange for another benefit.

(s) Section 409A.

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

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

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

*[Remainder of Page Left Blank Intentionally; Signature Page Follows]*

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**IN WITNESS WHEREOF** , the parties to this Agreement have executed this Employment and Non-Competition Agreement as of the date first above written.

EXLSERVICE HOLDINGS, INC.

By: /s/ Rohit Kapoor

Name: Rohit Kapoor

Title: President and CEO

EXECUTIVE

By: /s/ Vikram Talwar

Name: Vikram Talwar

*[Signature Page to Employment Agreement]*

**Outside Activities****1. Vikram Talwar & Associates LLC**

This is a Cayman incorporated LLC in which Vikram Talwar has 99% interest and his son Siddhartha has a 1% interest.

The company was formed in 1996 and was used as a consulting company during the period 1996- 2001. At the moment it is an inactive company and may be used for future investments. At the moment the company has little or no activity. There is no required time commitment for this company other than for the review of the accounts that have to be filed with income tax returns.

**2. E-placements Pvt. Ltd.**

This is a human resources company incorporated in India. This company is 75% owned by Allbiz Pvt. Ltd., a Mauritius incorporated company in which the Talwar family has a 100% ownership interest. Vikram Talwar has a 20% ownership interest in Allbiz. The other partner in E-placements is Singapore Technologies, which holds the remaining 25% interest.

The company is run by Siddhartha Talwar (son) and Urvashi Talwar (wife).

**3. Allbiz Pvt. Ltd.**

This is a Mauritius incorporated investment company in which Vikram has a 20% interest. His wife and sons hold the balance. A law firm in Mauritius handles all of the company's affairs and the only time spent by Vikram is for routine review of the investments and books of accounts.

**4. First American Financial Services Pvt. Ltd.**

This is a company owned by Vikram's son and a friend. It is primarily an investment company. There is no ownership or involvement by Vikram in this company. No material time is spent on this company except for occasional advice to Vikram's son.

**5. CJ Hotels Pvt. Ltd.**

This is a company that owns and runs the Meredien Hotel in New Delhi. Vikram has no equity interest in this company. He is only a Board member and Chairman of the Audit committee. The only time spent is on quarterly Board meetings and Audit committee meetings that are normally run back to back. These meetings generally take up no more than 3-4 hours once a quarter.

**Benefits for Vikram Talwar**

1. Executive may make use of and be reimbursed for first class air travel on company business. Additionally, once each calendar year during the Employment Term while Executive resides in India, the Company will provide, at its expense, round-trip, business-class air travel between the United States and India for Executive and his immediate family.
2. The Company shall at its expense maintain a term life insurance policy on the life of Executive in the face amount of Five Hundred Thousand Dollars (US\$500,000) payable to such beneficiaries as Executive may designate; provided that, Executive does not have any special health risks or conditions that would cause the rate of such life insurance plan to be substantially higher than the average rate for an individual of the same age as Executive.
3. The Company shall (i) maintain one automobile for use by the Executive and shall pay the costs of an automobile for the Executive in the United States, with lease or loan payments not to exceed \$1,200 per month; (ii) pay directly or shall reimburse the Executive for the cost of insurance and fuel for such automobile and for any personal automobile while used for business purposes; and (iii) provide the Executive with an automobile (Mercedes Benz) in India with a driver and shall pay for all costs, including insurance, repairs and fuel (such fuel payments shall cover the cost of fuel for two automobiles as the Executive uses his own car from time to time for Company business purposes).
4. Being that the Company has determined that Executive should have personal security, Executive and his family shall be provided with personal security paid for by the Company consistent with policies and procedures in place immediately prior to the Effective Date.
5. The Company shall pay for the annual dues for a luncheon club amounting to US\$1,000 per annum and the sum may be increased marginally year to year. The club membership is in Executive's name (and paid for personally) and will remain as such as the initial fee is avoided.
6. The Company shall pay the annual fee for the American Club amounting to US\$2,500. The fee shall be paid directly to the club.
7. The Company shall provide certain items of furniture, telecom lines and computer hardware necessary to maintain a home office for Executive.
8. During Executive's domicile outside the United States in connection with Company business, the Company shall pay Executive an education allowance equal to the private school tuition of Executive's children through secondary school; provided, however, that such education allowance shall not cover any costs associated with attendance at any post-secondary institution of higher learning.

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9. During Executive's travel to the United States in connection with Company business while Executive's domicile is outside the United States, Executive shall be provided a \$150.00 per diem billeting allowance for each night Executive does not stay in a hotel.

**AMENDED AND RESTATED EMPLOYMENT AND NON-COMPETITION  
AGREEMENT**

**AMENDED AND RESTATED EMPLOYMENT AND NON-COMPETITION AGREEMENT** (this “Agreement”) dated as of December 16, 2008 (the “Effective Date”), by and among **EXLSERVICE HOLDINGS, INC .**, a Delaware corporation (“Holdings” or the “Company”, and together with any subsidiaries of Holdings, the “Companies”), and Rohit Kapoor (the “Executive”).

**WITNESSETH:**

A. The Companies and Executive are currently parties to an Employment and Non-Competition Agreement dated as of September 30, 2006 (the “Current Employment Agreement”).

B. The Company desires to continue to employ Executive, and Executive is willing to continue to be employed by the Company, on the terms and conditions set forth in this Agreement, which amends and restates the Current Employment Agreement to reflect Executive’s new title and responsibilities, effective the Effective Date.

C. Executive acknowledges that (i) Executive’s continued employment with the Company will provide Executive with trade secrets of and confidential information concerning the Companies and (ii) the covenants contained in this Agreement are essential to protect the business and goodwill of the Companies.

Accordingly, in consideration of the premises and the respective covenants and agreements of the parties set forth below, and intending to be legally bound hereby, the parties agree as follows:

Section 1. Employment . The Company hereby continues to employ Executive, and Executive hereby accepts such continued employment, on the terms and conditions set forth in this Agreement. Executive represents that Executive is not a party to any agreement that restricts Executive’s right or ability to freely carry out Executive’s duties hereunder.

Section 2. Employment Term . Subject to the provisions of Section 7 of this Agreement, this Agreement shall be effective for a period commencing on the Effective Date and ending on December 31, 2009 (the “Initial Employment Term”); provided, however, that the Initial Employment Term shall be automatically extended for successive twelve (12) month periods unless, no later than 120 days prior to the expiration of the Initial Employment Term or any extension thereof, either party hereto shall provide written notice to the other party hereto of its or his desire not to extend the Employment Term hereof (the Initial Employment Term together with any extension shall be referred to hereinafter as the “Employment Term”).

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### Section 3. Duties, Authority, Status and Responsibilities.

(a) Executive shall serve as the Chief Executive Officer of the Company, and in such other position as the Board of Directors of the Company (the “Board”) may from time to time reasonably determine, subject at all times to the direction, supervision and authority of the Board. Executive’s duties shall include such duties as the Board may from time to time reasonably assign. The Company agrees to provide Executive such assistance and work accommodations as are suitable to the character of his positions with the Company and adequate for the performance of his duties. The Executive shall be based at the Company’s executive offices in the metropolitan New York City area or metropolitan Delhi, India area, as directed from time to time by the Board.

(b) During the Employment Term and except as otherwise agreed by the Company, Executive shall devote Executive’s full employable time, attention and best efforts to the business affairs of the Companies (except during vacations or illness) and will not actively engage in outside activities, whether or not such activity is pursued for gain, profit or other pecuniary advantage unless such activity (and the amount thereof) is approved by the Board. Executive’s list of approved outside activities with a description of the nature, scope and time commitment for each of such outside activities is attached hereto as Schedule 3(b) (the “Outside Activities”) (it being understood that such approval is based on the descriptions set forth in Schedule 3(b) and the level of activity and the nature of the activities remains consistent with the description set forth therein). The Board may request Executive to take reasonable steps to terminate an affiliation with any entity listed on Schedule 3(b) as promptly as practicable, but, in any event, no later than three (3) months after such request (provided, however, if Executive is required to divest any equity securities, Executive shall have six (6) months from the date of such request to dispose of such securities), if, in the Board’s reasonable determination, Executive’s affiliation with any such entity listed on Schedule 3(b) presents, or would present, a material harm to the reputation, business or prospects of the Company. Subject to Executive’s election or appointment as such, Executive further agrees to serve (without additional compensation) if so designated by the stockholders of the Companies, as applicable, during the Employment Term as a director and a member of any committee of the board of directors of any of the Companies. In addition to the other titles and responsibilities described in this Section 3, if requested by the Board, Executive shall serve (without additional compensation) during the Employment Term as an officer of any of the subsidiaries of the Company.

### Section 4. Cash Compensation.

(a) Subject to paragraph (b) below, during the Employment Term, Executive shall receive an annual base salary (the “Base Salary”) of FOUR HUNDRED TWENTY THOUSAND AND 00/100 DOLLARS (\$420,000) (the “Initial Base Salary”). Notwithstanding the provisions of Section 4(b), the Base Salary shall be reviewed no less



frequently than annually during the Employment Term for increase, if any, in the sole discretion of the compensation committee of the Board (“Compensation Committee”). The Base Salary shall not be decreased at any time, or for any purpose, during the Employment Term, unless a Company-wide decrease in pay is implemented. In such case, any decrease in the Base Salary shall be no greater, as a percentage of the Base Salary, than the lowest percentage decrease in the base salary of any other member of the Company’s senior management. The Base Salary shall not be less than the base salary of any other employee of the Company subject to section 16 of the Securities Exchange Act of 1934 (the “Exchange Act”), other than those who become employed by the Company by means of an acquisition of a corporation or business and become employees of the Company subject to a preexisting employment arrangement. The Base Salary shall be payable in accordance with the customary payroll practices of the Company for salaried employees.

(b) Executive shall have an opportunity to receive an annual cash bonus equal to 75% of Base Salary at target, with a maximum payment of no greater than 150% of Base Salary. The Compensation Committee shall determine the criteria and thresholds at which the target and maximum bonus shall be earned, as well as the level of attainment of the bonus criteria below which no bonus shall be earned, and the level of attainment at which a bonus of other than 75% or 150% of Base Salary shall be earned. To the extent there are extraordinary events such as acquisitions or dispositions, targets will be amended by the Board to reflect those events. Executive shall be paid Executive’s annual cash bonus (if any) when bonuses are paid generally to senior officers of the Company following completion of the audited financial statements of the Company. Such bonus shall be paid no later than December 31 of the calendar year following the year in which such bonus is earned. In the event the Company becomes subject to Section 162(m) of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder (the “Code”), the Committee may determine to take such action as shall be necessary to preserve the tax deductibility of the bonus. In that event, this Section 4(b) shall construed as necessary to do so.

Section 5. Reimbursement of Expenses . During the Employment Term, Executive shall be entitled to receive prompt reimbursement for all travel and business expenses reasonably incurred by Executive (in accordance with the policies and procedures established from time to time by the Company) in performing services hereunder; provided that Executive shall promptly and properly account therefor in accordance with the Company’s expense policy.

Section 6. Other Benefits .

(a) Benefit Plans, etc. During the Employment Term, Executive shall (i) be able to participate in all employee benefit plans and programs that are currently made available to the Company’s senior executives generally or to its employees generally, including, without limitation, pension, profit-sharing, savings and other retirement plans or programs, medical, dental, hospitalization, short-term and long-term disability and life insurance plans or programs, accidental death and dismemberment protection, travel accident insurance, and any other employee welfare benefit plan or

program that may be sponsored by the Company from time to time, whether funded or unfunded, and (ii) receive such additional fringe benefits and perquisites as the Board may, in its sole discretion, from time to time determine; provided, however, that with the exception of the stock option described in Section 6(h) hereunder, such benefits for Executive shall not include any equity compensation awards during the Initial Employment Term, except as may hereafter be awarded at the discretion of the Compensation Committee. Nothing in this Agreement shall be construed to require the Company to establish or maintain any such plans, programs, benefits or perquisites.

(b) Tax Planning Assistance. The Company shall reimburse Executive up to \$12,000 for expenses incurred during the Employment Term in connection with personal tax and estate planning.

(c) Vacations. Executive shall be entitled to four (4) weeks vacation with pay during each year of the Employment Term. Vacations shall not be taken in a manner which will unreasonably interfere with Executive's duties hereunder. Executive shall also be entitled to all paid holidays and personal days given by the Company to its senior executives.

(d) Travel. See Schedule 6 attached hereto.

(e) Transportation. See Schedule 6 attached hereto.

(f) Relocation. If Executive relocates his residence at the request of the Company during the Employment Term, the Company shall reimburse Executive for the cost of relocating himself and his immediate family, as reasonably determined at such time by the Board. In the event that Executive and his immediate family are relocated with the consent of the Board as contemplated by this Agreement, then Executive also shall be reimbursed for the after-tax costs of maintaining his existing residence at the Effective Date subsequent to any such relocation so as to permit Executive to have the same after-tax value as though he were not maintaining said residence; provided that Executive shall use his best efforts to mitigate such costs by either renting his existing residence for a market rent (in which case the Company's obligation shall be limited to the costs of maintaining such residence in excess of such rent) or selling such residence at a prevailing market price (in which case the Company's obligation shall cease as of and following the closing of such sale).

(g) Additional Fringe Benefits. During the Employment Term, Executive shall be entitled to additional benefits listed on Schedule 6 hereto.

(h) Equity Awards. Executive shall be eligible to receive stock option and/or restricted stock awards annually during the Employment Term. The Compensation Committee shall have the sole discretion to determine the amount and form of any such subsequent award; provided that in making such determination it shall take into account (i) the grant date value of the stock option granted to Executive on July 27, 2006 in respect of 75,000 shares of Series B common stock of Holdings (" Common Stock ") as the "baseline" value for subsequent awards, (ii) the Company's performance

against budget since the grant date of the immediately preceding equity compensation award to Executive and (iii) any changes in market compensation of similarly situated executives since the grant date of the immediately preceding equity compensation award to Executive. The definitive terms of each such subsequent equity compensation award shall be set forth in a restricted stock or stock option agreement, as applicable, between Executive and the Company substantially in the form of Exhibit A or Exhibit B attached hereto, as applicable, except that (i) the vesting shall be on an annual ratable basis over four years commencing on the date of grant of the award, (ii) the exercise price of a stock option shall be the fair market value of the stock subject to such option on the date of grant and (iii) such terms may be changed by the mutual agreement of Executive and the Company.

(i) Timing of Certain Payments. To the extent that any reimbursements pursuant to Sections 5 or 6 are taxable to Executive, any such reimbursement payment due to Executive shall be paid to Executive as promptly as practicable, and in all events on or before the last day of Executive's taxable year following the taxable year in which the related expense was incurred. The reimbursements pursuant to Sections 5 or 6 are not subject to liquidation or exchange for another benefit and the amount of such benefits and reimbursements that Executive receives in one taxable year shall not affect the amount of such benefits or reimbursements that Executive receives in any other taxable year.

Section 7. Termination. The Employment Term and Executive's employment hereunder may be terminated under the following circumstances:

(a) Death. The Employment Term and Executive's employment hereunder shall terminate upon Executive's death. In that event, Executive's estate shall be entitled to a lump sum payment in cash equal to the sum of all accrued cash obligations owing to Executive, plus an amount equal to a pro-rata portion of the projected bonus amount for the year during which the death occurs, as reasonably determined by the Compensation Committee. Following any termination of Executive's employment hereunder pursuant to this Section 7 (a), other than as set forth in Section 7(g) the Company shall have no further obligation to pay any compensation or provide any benefits, except as expressly set forth herein.

(b) Disability. Either Party may terminate Executive's employment hereunder for Disability. "Disability" shall mean Executive's inability, due to physical or mental incapacity, to substantially perform Executive's duties and responsibilities under this Agreement for a period of 180 consecutive days. In conjunction with determining Disability for purposes of this Agreement, Executive hereby (i) consents to any such examinations which are relevant to a determination of whether Executive is mentally and/or physically disabled and (ii) agrees to furnish such medical information as may be reasonably requested, and to waive any applicable physician-patient privilege that may arise because of such examination. Not more than 30 days following any termination of Executive's employment hereunder pursuant to this Section 7(b), the Company shall make a lump sum payment in cash to Executive equal to the sum of all accrued cash obligations owing to Executive, plus an amount equal to a pro-rata portion of the projected bonus amount for the year during which the Disability occurs.

In the event of Executive's physical or mental incapacity which the Board reasonably determines is likely to result in a Disability, the Company may temporarily remove Executive's job title and relieve him of his responsibilities until the time when Executive returns to his employment in the same capacity as prior to such incapacity or is terminated in accordance with this Section 7(b), and such removal of title shall not constitute the removal of title (as contemplated by clause (B) of Section 7(d)) for the purpose of determining "Good Reason" (as defined below). Notwithstanding the foregoing, if Executive resumes his duties within 180 days of such incapacity, his title and position shall be reinstated.

(c) Termination for Cause; Voluntary Termination; Expiration of the Employment Term. The Employment Term and Executive's employment hereunder may be terminated (i) by the Company for "Cause" (as defined below) by written notice, specifying the grounds for Cause in reasonable detail, and (ii) by Executive "voluntarily" (that is, other than for Disability or Good Reason in accordance with Section 7(b) or 7(d)). Executive's employment shall be terminated at the end of the Employment Term following either party hereto giving the other a notice of its or his desire not to extend the Employment Term in accordance with Section 2. "Cause" shall mean:

(A) a final non-appealable conviction of, or a pleading of no contest to, (i) a crime of moral turpitude which causes serious economic injury or serious injury to the Company's reputation or (ii) a felony; or

(B) fraud, embezzlement, gross negligence, self-dealing, dishonesty or other gross and willful misconduct which has caused serious and demonstrable injury to the Company;

(C) material violation by Executive of any material Company policy;

(D) willful and continuing failure to substantially perform Executive's duties (other than for reason of physical or mental incapacity) which failure to perform continues beyond fifteen (15) days after a written demand for substantial improvement in Executive's performance, identifying specifically and in detail the manner in which improvement is sought, is delivered to Executive by the Company; provided that a failure to achieve performance objectives shall not by itself constitute Cause and no act or failure to act by Executive shall be considered "willful" unless done or failed to be done by Executive in bad faith and without a reasonable belief that Executive's actions or omission was in the best interest of the Company;

(E) Executive's failure to reasonably cooperate in an investigation involving the Company by any governmental authority;

(F) Executive's material, knowing and intentional failure to comply with applicable laws with respect to the execution of the Company's business operations, including, without limitation, a knowing and intentional failure to comply with the Prevention of Corruption Act of India, 1988, or the United States Foreign Corrupt Practices Act of 1977, as amended; provided, that, if all of the following conditions exist, there will be a presumption that Executive has acted in accordance with such applicable laws: Executive is following, in good faith, the written advice of counsel, such counsel having been approved by the Board as outside counsel to the Company for regulatory and compliance matters, in the form of a legal memorandum or a written legal opinion, and Executive has, in good faith, provided to such counsel all accurate and truthful facts necessary for such counsel to render such legal memorandum or written legal opinion;

(G) Executive's failure to follow the lawful directives of the Board which is not remedied within fifteen (15) days after Executive's receipt of written notice from the Company specifying such failure;

(H) Executive's use of alcohol or drugs which materially interferes with the performance of his duties; or

(I) Executive's failure to take the reasonable steps necessary to terminate his affiliation with any entity listed on Schedule 3(b) within six months after being requested by the Board, pursuant to Section 3(b) hereof, to take such action.

Following any termination or expiration of the Employment Term and Executive's employment hereunder pursuant to this Section 7(c), other than as set forth in Section 7(g) Executive shall not be entitled to receive any further compensation or payments under the Agreement (except for Base Salary relating to Executive's services prior to the termination date).

(d) Termination for Good Reason or Without Cause. The Employment Term and Executive's employment hereunder may be terminated (i) by Executive for Good Reason and (ii) by the Company "Without Cause" (that is, other than for Disability or Cause in accordance with Section 7(b) or 7(c)). "Good Reason" shall mean the occurrence, without Executive's prior written consent, of any of the following events:

(A) a substantial reduction of Executive's duties or responsibilities, or Executive being required to report to any person other than the Board, provided that, if there is a "Change of Control" (as defined below) and Executive retains similar title and similar authority with the Company or any entity that acquires the Company (or any affiliate or subsidiary of such entity) following such Change of Control, the parties agree that any change in the title of Executive shall not constitute a significant reduction of Executive's duties and authorities hereunder;

(B) Executive's job title as an officer of the Company is adversely changed, provided that if there is a Change of Control and Executive retains similar title and similar authority with the Company or any entity that acquires the Company (or any affiliate or subsidiary of such entity) following such Change of Control, the parties agree that any change in the title of Executive shall not constitute a significant reduction of Executive's duties and authorities hereunder;

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(C) a reduction of Executive's then Base Salary or annual cash bonus opportunity to below 75% of Base Salary at target other than that described in Section 4(a);

(D) (i) a change in the office or location in the metropolitan New York City area where Executive is based on the Effective Date of more than thirty (30) miles, which new location is more than thirty (30) miles from Executive's primary residence in the metropolitan New York City area; or (ii) following any relocation to the metropolitan Delhi, India area pursuant to Section 3(a), a change in the office or location in the metropolitan Delhi, India area where Executive is then based of more than thirty (30) miles, which new location is more than thirty (30) miles from Executive's primary residence in the metropolitan Delhi, India area; provided, however, for the sake of clarity, that any relocation pursuant to Section 3(a) from the metropolitan New York City area to the metropolitan Delhi, India area (or from the metropolitan Delhi, India area to the metropolitan New York City area) shall not result in Good Reason hereunder, so long as the resulting office or location is within the thirty (30) mile parameters described in clause (i) or (ii) hereof, as applicable, when compared to the immediately preceding office or location where Executive was based in such metropolitan area (assuming for such purpose that there had been no intervening relocation pursuant to Section 3(a) between the metropolitan New York City area and the metropolitan Delhi, India area); or

(E) a breach by the Company of any material term of the Employment Agreement;

provided that, a termination by Executive with Good Reason shall be effective only if, within 30 days following Executive's first becoming aware of the circumstances giving rise to Good Reason, Executive delivers a "Notice of Termination" (as defined in Section 7(i)) for Good Reason by Executive to the Company, and the Company within 15 days following its receipt of such notification has failed to cure the circumstances giving rise to Good Reason. For the avoidance of doubt, a request by the Board that Executive or his family relocate to India shall not constitute Good Reason.

Notwithstanding anything in this Section 7(d) to the contrary, if Executive assumes or has assumed the title and/or duties of chief financial officer of the Company, any subsequent relinquishment or elimination of such title and/or duties shall not constitute Good Reason hereunder.

(e) Severance. If Executive's employment hereunder is terminated pursuant to Section 7(d) hereof, Executive will be entitled to:

(i) 24 months of Base Salary plus payment of Executive's actual bonus earned for year of termination as determined in accordance with the Company's annual incentive plan as if Executive had been employed for the full year in which Executive terminates, such Base Salary to be paid ratably for 24 months in accordance with Company's existing payroll practices (such payment to begin as soon as practicable, and in all events within 30 days following termination of employment) and such actual bonus, if any, to be paid ratably over the remaining period and number of Base Salary payments hereunder, commencing after the Compensation Committee has determined such bonus amount (such payment to begin as soon as practicable, and in all events within 30 days following the determination of the bonus amount), provided that if amounts paid under this Section 7(e) are determined to be "deferred compensation" within the meaning of Section 409A of the Code ("Section 409A") and Executive is deemed to be a "specified employee" as defined in Section 409A(a)(2)(B)(i) of the Code and the regulations issued thereunder relating to deferred compensation, then any payments due hereunder in respect of the six months immediately following Executive's termination of employment shall be paid in a single lump sum on the Company's first regularly scheduled pay date occurring more than six months following Executive's termination of employment;

(ii) continuation of life insurance coverage provided pursuant to Section 6(a) for the eighteen (18) month period following termination of employment so long as such continuation of coverage is permitted under the Company's benefit plans and applicable law; provided, that, such coverage shall terminate if Executive commences employment with a subsequent employer within the applicable period; and

(iii) the benefits set forth in Section 7(g).

(f) Termination Following a Change of Control. Notwithstanding anything in this Section 7 to the contrary, if Executive's employment is involuntarily terminated by the Company without Cause or Executive terminates employment for Good Reason within 12 months following a Change of Control, then Executive shall receive, in complete satisfaction of all payments (including severance) due under this Agreement, (i) Base Salary relating to Executive's services prior to the termination date and (ii) a lump sum payment of \$999,000. The payments referred to in subclauses (i) and (ii) of this Section 7(f) shall be paid as soon as practicable, and in all events within thirty (30) days following termination of employment; provided that if the Change of Control does not satisfy the definition of a change in the ownership or effective control of a corporation, or a change in the ownership of a substantial portion of the assets of a corporation pursuant to Section 409A, then the payment referred to in subclause (ii) of this Section 7(f) will be paid ratably for 24 months in accordance with Company's existing payroll practices, such payment to begin as soon as practicable, and in all events within 30 days following termination of employment; provided, further, that if amounts paid under this Section 7(f) are determined to be "deferred compensation" within the meaning of Section 409A and Executive is deemed to be a "specified employee" as defined in Section 409A(a)(2)(B)(i) of the Code and the regulations issued thereunder

relating to deferred compensation, then the payment referred to in subclause (i) of this Section 7(f) and the first of the ratable payments referred to in subclause (ii) of this Section 7(f) shall be paid on the Company's first regularly scheduled pay date occurring more than six months following Executive's termination of employment (the remainder of the ratable payments referred to in subclause (ii) to continue to be paid ratably in accordance with such subclause). In addition, upon a termination of employment described in this Section 7(f), (iii) Executive shall receive the benefits set forth in Section 7(g) and (iv) all unvested equity awards granted on or after the Effective Date and held by Executive shall become fully vested and, in the case of stock options, exercisable.

(g) Post-Termination Health Insurance. Upon the cessation of Executive's employment hereunder for any reason other than termination by the Company for Cause or a voluntary termination by Executive (in each case under Section 7(c)), the Company shall pay on behalf of Executive and his eligible dependents the cost of continued coverage under the Company's group health plan for eighteen (18) months following such cessation in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), subject to such persons making timely elections to continue such coverage pursuant to COBRA and satisfaction of COBRA's eligibility requirements and other terms, conditions, restrictions and exclusions. Should COBRA coverage become unavailable due to the Company's failure to maintain a group health plan, the Company shall reimburse Executive and his dependents for the premium cost of comparable coverage obtained directly by Executive and his dependents for the balance of the 18 month period. The Company's obligation to pay such premium costs shall cease at the time Executive (or, in the case of Executive's death, his eligible dependents) become eligible for comparable health benefits from another employer. For purposes of clarity, it is understood that the preceding two sentences shall apply if Executive's employment ceases upon the natural expiration of the Employment Term as described in Section 2. In addition, if Executive elects COBRA coverage following the cessation of his employment for any reason whatsoever (whether paid by the Company or Executive), the Company will, at the request of Executive, facilitate and use commercially reasonable efforts to cause the conversion of his Company group health insurance coverage to an individual policy upon the expiration of Executive's eligibility for COBRA coverage; provided that the foregoing is not intended to be a guarantee by the Company that such conversion will be available to Executive at that time. Any payment made to Executive under Section 7(e)(ii) or under this Section 7(g) (to the extent such payments are treated as "deferred compensation" within the meaning of Section 409A) shall be paid as soon as practicable following submission of the claims but in any event not later than the third calendar year following the calendar year in which Executive's "separation from service" (as defined in Section 409A) occurs.

(h) As used in this Agreement, "Change of Control" means

(i) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (a "Person") of beneficial ownership (within the meaning of Rule 13d 3 promulgated under the Exchange Act) of more than 50% (on a fully diluted basis) of either (A) the then outstanding shares of Common Stock,



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taking into account as outstanding for this purpose such Common Stock issuable upon the exercise of options or warrants, the conversion of convertible stock or debt, and the exercise of any similar right to acquire such Common Stock (the “ Outstanding Company Common Stock ”) or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “ Outstanding Company Voting Securities ”); provided, however, that for purposes of this Plan, the following acquisitions shall not constitute a Change of Control: (I) any acquisition by the Company or (i) any entity that directly or indirectly is controlled by, controls or is under common control with the Company and (ii) to the extent provided by the Compensation Committee, any entity in which the Company has a significant equity interest (“ Affiliate ”) on the Effective Date, (II) any acquisition by any employee benefit plan sponsored or maintained by the Company or any Affiliate, (III) any acquisition by one or more of Oak Hill Partners L.P., FTVenture, any affiliate of either of them, or any group of which either of them is a member (a “ Designated Holder ”) , (IV) any acquisition which complies with clauses (A), (B) and (C) of subsection (v) of this Section 7(h), or (V) in respect of an Award held by a particular Participant, any acquisition by the Participant or any group of persons including the Participant (or any entity controlled by the Participant or any group of persons including the Participant);

(ii) individuals who, on the date hereof, constitute the Board (the “ Incumbent Directors ”) cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the date hereof, whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by a specific vote or by approval of a registration statement of the Company describing such person’s inclusion on the Board, or a proxy statement of the Company in which such person is named as a nominee for director, without written objection to such nomination) shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to directors or as a result of any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board shall be deemed to be an Incumbent Director;

(iii) the dissolution or liquidation of the Company;

(iv) the sale, transfer or other disposition of all or substantially all of the business or assets of the Company; or

(v) the consummation of a reorganization, recapitalization, merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company that requires the approval of the Company's stockholders, whether for such transaction or the issuance of securities in the transaction (a "Business Combination"), unless immediately following such Business Combination: (A) more than 50% of the total voting power of (x) the entity resulting from such Business Combination (the "Surviving Company"), or (y) if applicable, the ultimate parent entity that directly or indirectly has beneficial ownership of sufficient voting securities eligible to elect a majority of the members of the board of directors (or the analogous governing body) of the Surviving Company (the "Parent Company"), is represented by the Outstanding Company Voting Securities that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which the Outstanding Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of the Outstanding Company Voting Securities among the holders thereof immediately prior to the Business Combination, (B) no Person (other than any employee benefit plan sponsored or maintained by the Surviving Company or the Parent Company, or one or more Designated Holders), is or becomes the beneficial owner, directly or indirectly, of more than 50% of the total voting power of the outstanding voting securities eligible to elect members of the board of directors of the Parent Company (or the analogous governing body) (or, if there is no Parent Company, the Surviving Company) and (C) at least a majority of the members of the board of directors (or the analogous governing body) of the Parent Company (or, if there is no Parent Company, the Surviving Company) following the consummation of the Business Combination were Board members at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination.

(i) Notice of Termination. No termination of Executive's employment by the Company or by Executive (other than Termination pursuant to Section 7(a)) shall be effective until written notice of termination (the "Notice of Termination") has been given to the other Party hereto in accordance with Section 8. In the case of a termination by the Company without Cause, such notice shall be given not less than fifteen (15) business days prior to the termination date. If the Board concludes it is prepared to immediately terminate Executive for Cause (other than due to the conviction of Executive of a felony), the Board shall put Executive on a leave of absence during which time Executive will forfeit his title and responsibilities but will be provided with an opportunity to appear before the Board, at Executive's election, to present arguments and evidence on his own behalf, at a date and time specified in the Notice of Termination. Following such hearing, the Board, by an affirmative vote of a majority of its members (not to include Executive if Executive is a member of the Board), shall make a final determination that the action or inaction by Executive specified in the Notice of Termination constitutes or does not constitute termination for Cause. If the Board determines that Executive is not terminated for Cause, the Board shall take any reasonable steps necessary to reinstate Executive in his prior position, with the same title and responsibilities that Executive held prior to receiving the Notice of Termination for Cause described herein.

(j) Date of Termination. “ Date of Termination ” shall mean (i) if Executive’s employment is terminated by Executive’s death, the date of Executive’s death, (ii) if Executive’s employment is terminated for Cause in accordance with Section 7(c), the date specified in the Notice of Termination, (iii) if Executive’s employment is terminated due to the expiration of the Employment Term as described in Section 7(c), the date that the Employment Term expires, and (iv) if Executive’s employment is terminated for any other reason, fifteen (15) business days after the date on which a Notice of Termination is delivered.

Section 8. Notice. All notices or other communications hereunder shall be in writing and shall be deemed to have been duly given (a) when delivered personally, (b) on the second business day following the day such notice or other communication is sent, for next-day or next-business-day delivery, by a nationally-recognized overnight courier, (c) when sent by facsimile if the date of delivery is a business day, or otherwise on the next business day, or (d) on the fifth day following the date of deposit in the United States mail if sent first class, postage prepaid, by registered or certified mail; provided that in the case of delivery in accordance with Section 7(c) or 7(d), a written acknowledgment of receipt is obtained.

The address for any notice to Executive shall be:

Rohit Kapoor  
8 Cornell Street  
Scarsdale, NY 10583

with a copy to:

Thelen Reid & Priest LLP  
875 Third Avenue  
New York, NY 10022  
Main: (212) 603-2000  
Fax: (212) 603-2001  
Attn: Bruce Rich, Esq.

to the Company:

ExlService Holdings, Inc.  
350 Park Avenue, 10th Floor  
New York, NY 10022  
Fax: (212) 892-1534  
Attn: General Counsel

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and to Oak Hill:

Oak Hill Partners Inc.  
One Stamford Plaza  
263 Tresser Blvd., 15th Floor  
Stamford, CT 06901  
Fax: (203) 328-1651  
Attention: Steven Gruber

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP  
1285 Avenue of the Americas  
New York, New York 10019-6064  
Fax: (212) 492-0237  
Attention: Lawrence I. Witdorhich, Esq.

with a copy to:

Oak Hill Capital Management, Inc.  
Park Avenue Tower  
65 East 55<sup>th</sup> Street, 32nd Floor  
New York, NY 10022  
Fax: (212) 758-3572  
Attention: John R. Monsky, Esq.

or such other address or fax number as such Party has designated by notice given to the other Party in accordance with this Section.

Section 9. Covenant Not To Compete .

(a) Executive acknowledges that the services he is to render to the Company are of a special and unusual character, with a unique value to the Company, the loss of which cannot adequately be compensated by damages or an action at law. In view of the unique value to the Companies of the services of Executive for which the Company has contracted hereunder, because of the confidential information to be obtained by, or disclosed to, Executive as herein above set forth, and as a material inducement to the Company to enter into this Agreement and to pay to Executive the compensation stated herein and any additional benefits stated herein, and other good and valuable consideration, Executive covenants and agrees that during the Employment Term and during the "Non-Competition Period," as defined below, Executive shall not, directly or indirectly, enter into the employment of, tender consulting or other services to, acquire any interest in (whether for Executive's own account as an individual proprietor, or as a partner, associate, stockholder, officer, director, trustee or otherwise), or otherwise participate in any business that competes, directly or indirectly, with any of the Companies (i) in the same lines of business in the business process outsourcing industry that the Companies are engaged in at the time Executive's employment is terminated, or

if Executive is an employee of any of the Companies, at the time Executive is accused of being in competition with any of the Companies pursuant to this Section 9; (ii) in the provision of the business processes provided by the Companies at the time Executive's employment is terminated, or if Executive is an employee of any of the Companies, at the time Executive is accused of being in competition with any of the Companies pursuant to this Section 9; (iii) in the provision of business processes that any of the Companies have taken substantial steps to provide to customers at the time Executive's employment is terminated, or if Executive is an employee of any of the Companies, at the time Executive is accused of being in competition with any of the Companies pursuant to this Section 9; or (iv) in the provision of business processes that any of the Companies are in the process of marketing to existing or potential clients that any of the Companies are taking measures to retain as clients of the Companies, at the time Executive's employment is terminated, or if Executive is an employee of any of the Companies, at the time Executive is accused of being in competition with any of the Companies pursuant to this Section 9, during the Employment Term. Executive and the Company acknowledge that clauses (ii), (iii) and (iv) in the immediately preceding sentence shall not be deemed or interpreted to narrow or otherwise limit the scope of clause (i) of such sentence. Notwithstanding the foregoing, in the event Executive voluntarily terminates employment other than for Good Reason, Executive shall be restricted from engaging in any business processing outsourcing business for one year from the Date of Termination. For purposes of this Section 9, the "Non-Competition Period" shall be the one year period following Executive's termination of employment for any reason; provided that, notwithstanding the above, if Executive's employment is terminated at the end of the Employment Term following the Company's giving Executive a notice of its desire not to extend the Employment Term in accordance with Section 2, the Non-Competition Period, and this Section 9(a), shall not apply following such termination of employment, unless, in the sole discretion of the Company, the Company continues to pay Executive the Base Salary in effect at the time of termination for one year following termination.

(b) Notwithstanding the foregoing, nothing in this Agreement shall prevent (A) the purchase or ownership by Executive of up to two percent (2%) in the aggregate of any class of securities of any entity if such securities (i) are listed on a national securities exchange or (ii) are registered under Section 12(g) of the Exchange Act; or (B) the direct or indirect ownership of securities of a private company, provided that, Executive is only a passive investor in such company (having no role, duty or responsibility whatsoever in the management, operations or direction of such company) and owns no more than five percent (5%) in the aggregate of any securities of such company. If Executive's employment with the Company is terminated for any reason, and after such termination Executive wishes to take any action, including without limitation, taking a position with another company, which action could potentially be deemed a violation of this Section 9, Executive shall have the right, after providing the Board with all relevant information, to request a consent to such action from the Board which consent shall not be unreasonably withheld. The Board shall respond to Executive's request by granting or denying such consent within not more than 30 calendar days from the date the Company receives written notice of such request from Executive. If Executive disagrees with the Board's decision relating to the consent, then a third-party arbitrator (the "Arbitrator") shall be appointed within five (5) days of the

date Executive notifies the Company of his disagreement, and the third party Arbitrator shall be instructed to make a determination with respect to whether Executive's action would constitute a legally valid and enforceable violation of Section 9 within not more than thirty (30) days of his appointment and such determination shall be binding on all of the parties hereto. The cost of the Arbitrator shall be borne by the Company; provided, however, if the Arbitrator's determination is inconsistent with Executive's position, then the cost of the Arbitrator shall be borne by Executive.

Section 10. Confidential Information.

(a) Protection of Confidential Information. Executive acknowledges that the Companies have a legitimate and continuing proprietary interest in the protection of their confidential information and that they have invested substantial sums and will continue to invest substantial sums to develop, maintain and protect such confidential information. During the Employment Term and at all times thereafter, Executive shall not, except with the written consent of the Company or in connection with carrying out Executive's duties or responsibilities hereunder, furnish or make accessible to anyone or use for Executive's own benefit any trade secrets, confidential or proprietary information of any of the Companies, including their business plans, marketing plans, strategies, systems, programs, methods, employee lists, computer programs, insurance profiles and client lists; provided, however, that such protected information shall not include either information required to be disclosed under law or pursuant to an order of a court, governmental agency, arbitration panel or other person or body with apparent jurisdiction or information known to the public or otherwise in the public domain without violation by Executive of this Section 10.

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

Section 11. Non-Disparagement; Non-Solicit.

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

in their capacity as officers and directors of the Company) shall make no Disparaging Statement about Executive; provided that any officer or director may give truthful testimony before a court, governmental agency, arbitration panel, or similar person or body with apparent jurisdiction and may discuss such matters in confidence with their or the Company's attorney(s) and other professional advisors.

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

#### Section 12. Miscellaneous.

(a) Mitigation. Executive shall have no duty to mitigate his damages by seeking other employment and, should Executive actually receive compensation from any such other employment, the payments required hereunder shall not be reduced or offset by any other compensation except as specifically provided herein.

(b) Limitation of Shareholder Liability. Executive hereby acknowledges that the shareholders of Holdings are entitled to limited liability under the laws of the State of Delaware applicable to corporations and as such Executive shall not, nor shall he have the right to, make any claim against the shareholders of Holdings relating to any contest or dispute under this Agreement.

(c) Waiver. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in a writing signed by Executive and an officer of the Company (other than Executive) duly authorized by the Board to execute such amendment, waiver or discharge. No waiver by either party to this Agreement at any time of any breach of the other party of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

(d) Successors and Assigns. This Agreement shall be binding on and inure to the benefit of the successors and assigns of the Company.

(e) Governing Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York, without regard to the conflict of laws principles of such State which could cause the application of the laws of any other state.

(f) Consent to Jurisdiction and Service of Process. Any claim for injunctive relief pursuant to Sections 9, 10, 11 or 12(k) under this Agreement shall be instituted exclusively in any Federal court of the Southern District of New York or any state court located in New York County, State of New York, and each party agrees not to assert, by way of motion, as a defense or otherwise, in any such claim, any claim that it is not subject personally to the jurisdiction of such court, that the claim is brought in an inconvenient forum, that the venue of the claim is improper or that this Agreement or the subject matter hereof may not be enforced in or by such court. Each party further irrevocably submits to the jurisdiction of such court in any such claim. Any and all service of process and any other notice in any such claim shall be effective against any party if given personally or by registered or certified mail, return receipt requested, or by any other means of mail that requires a signed receipt, postage prepaid, mailed to such party as herein provided. Nothing herein contained shall be deemed to affect the right of any party to serve process in any manner permitted by law or to commence legal proceedings or otherwise proceed against any other party in any other jurisdiction.

(g) Dispute Resolution. Any dispute, controversy or other claim, other than claims solely for injunctive relief pursuant to Section 9, 10, 11 or 12(k), arising out of or relating to (i) this Agreement, or (ii) Executive's employment with the Company shall be resolved by binding confidential arbitration, to be held in New York, New York in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Executive agrees that it shall not bring any claim or action against the Company's directors, officers or shareholders and shall not be entitled to any punitive, special or consequential damages in connection with any such claim, dispute or controversy. In connection with any claim or action brought by any of the Companies or any of their respective directors or, officers or shareholders against Executive, no such person shall be entitled to any punitive, special or consequential damages.

(h) Assignment. This Agreement is a personal contract, and the rights and interests of Executive hereunder may not, during the Employment Term, be sold, transferred, assigned, pledged or hypothecated. This Agreement may not be assigned by the Company other than to a company (i) which, directly or indirectly controls, is controlled by or is under common control with the Company, or which is a successor in interest to substantially all of the business operations of the Company, and (ii) which assumes in writing or by operation of law, at the time of the assignment, the Company's obligation to perform this Agreement; and (iii) which has sufficient capitalization to enable it to meet its assumed obligation to perform this Agreement.

(i) Severability of Invalid or Unenforceable Provisions. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.



(j) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

(k) Injunctive Relief; Damages. Executive acknowledges that damages for any breach of Sections 9 through 11 of this Agreement may be difficult to determine and inadequate to remedy the harm which may be caused and, therefore, consents that such Sections may be enforced by temporary or permanent injunction. Such injunctive relief shall be in addition to and not in place of any other remedies available at law or equity, including damages. Should any court or tribunal decline to enforce such sections of this Agreement on the basis that such provisions are overly restrictive of activities of Executive as to time, scope or geography, such provisions shall be deemed to be modified to restrict Executive's activities to the maximum extent of time, scope and geography which such court or tribunal shall find enforceable, and such provisions shall be so enforced.

(l) Entire Agreement. This Agreement sets forth the entire agreement of the Companies and Executive in respect of the subject matter contained herein and supersedes all prior agreements (including, but not limited to, the Current Employment Agreement as in effect prior to the Effective Date), promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of either party to this Agreement hereto and any prior agreement of the parties hereto in respect of the subject matter contained herein.

(m) Beneficiaries/References. Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit hereunder following Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of Executive's incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to Executive's beneficiary, estate or other legal representative.

(n) Withholding; Tax Equalization. The Company shall be entitled to withhold from any payment due to Executive hereunder any amounts required to be withheld by applicable tax laws or regulations. If relevant, the Company shall provide Executive such additional compensation, if any, as is reasonably necessary to ensure that Executive's total compensation, benefits and bonus payments have the same after-tax value as if Executive were employed in and subject to taxation only in the United States; provided, that, the Company shall reimburse Executive for the amount of the overall increase in his tax liabilities resulting solely from his work-related travel to India; provided, further, however, that if Executive is required to relocate at the request of the Company from his residence to India, the Company shall reimburse Executive for the amount of the overall increase in his tax liabilities (without duplication of any reimbursement pursuant to the immediately preceding proviso) as a result of his relocation to India and the fact that he is subject to Indian taxation. These equalization payments shall include a tax restoration payment that takes into account the impact of the reimbursements. Executive agrees that if he receives a refund or other credit on his taxes, he shall repay the Company any amount in excess of the amount necessary such that the after tax amount retained by Executive is equal to the amount he would have retained had he remained employed in the United States.

(o) Registration of Shares . The Company shall, when eligible, register on Form S-8 or such other appropriate form the resale of shares of Common Stock owned by Executive pursuant to the grant or exercise of equity compensation awards held by Executive on the Effective Date or underlying equity compensation awards granted to Executive during the Employment Term. This is in addition to any registration rights Executive has under any other contract with the Company

(p) Directors' Slate . Executive's name shall be included on the Company's recommended slate of directors for each stockholders meeting during the Employment Term at which Executive is eligible for reelection to the Board; provided, however, that Executive agrees to consult in good faith with the Board regarding Executive's continued service on the Board if and to the extent the Board determines that prevailing standards of corporate governance provide that it is not appropriate for an officer of the Company to serve on the Board. Executive agrees to tender resignation from the Board upon termination of employment. In the case of Executive's termination for any reason other than by the Company for Cause, if and only if Executive continues to own 4% of the Common Stock, Executive may, subject to the approval of the Board in its sole reasonable determination, designate an individual to be included on the Company's recommended slate of directors for the next stockholders' meeting at which directors of the Company are to be elected; provided that this sentence shall cease to apply on and following the time that any equity securities of the Company become listed for trading on a national securities exchange or other quotation or trading system.

(q) Legal Fees . Upon the execution of this Agreement, the Company agrees to pay on behalf of Executive all legal fees and expenses incurred by Executive in connection with the negotiation, drafting, and execution of this Agreement which, when aggregated with any similar fees incurred by Vikram Talwar and paid by the Company in connection with the negotiation, drafting and execution of an employment agreement for Mr. Talwar with the Company, do not exceed \$25,000.

(r) Indemnification . The Company shall indemnify and defend Executive to the fullest extent permitted by the law of the State of Company's incorporation and the By-Laws and Certificate of Incorporation of the Company with respect to any claims that may be brought against Executive arising out of any action taken or not taken in Executive's capacity as an officer or director of the Company; provided, that, the Company shall not indemnify and defend Executive with respect to any claims brought against Executive relating to intentional or willful acts of the Executive, or to other acts as to which indemnification is not allowable under applicable law. In addition, Executive shall be covered, in respect of Executive's activities as an officer or director of the Company, by the Company's Directors and Officer liability policy or other comparable policies obtained by the Company's successors, to the fullest extent permitted by such policies. Notwithstanding the foregoing, the Company's responsibilities under this Section 12(r) shall not apply to any claims raised against

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

(s) Section 409A .

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

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

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

*[Remainder of Page Left Blank Intentionally; Signature Page Follows]*

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**IN WITNESS WHEREOF** , the parties to this Agreement have executed this Employment and Non-Competition Agreement as of the date first above written.

EXLSERVICE HOLDINGS, INC.

By: /s/ Vikram Talwar

Name: Vikram Talwar

Title: Executive Chairman

ROHIT KAPOOR

By: /s/ Rohit Kapoor

Name: Rohit Kapoor

*[Signature Page to Employment Agreement]*

**Outside Activities**

**1. Care Solutions LLC**

Rohit is a partner of this nurse recruitment company. Rohit and his spouse – Shikha will have 50% ownership in this company. No material time is presently spent on this company by Rohit, it being primarily a project of his wife. Going forward, Rohit expects to play no more than an advisory role for this company.

**2. Arrowhead Advisors LLC**

Rohit is a partner of this investment advisory company. Rohit and his spouse – Shikha have a 100% ownership of this company. No material time is presently spent on this company by Rohit, it being primarily a passive advisory company for long time Private Banking clients of Rohit. Going forward, Rohit does not anticipate spending more than a few days a year on the affairs of this company.

**Benefits for Rohit Kapoor**

1. The Executive may make use of and be reimbursed for First Class travel on company business. Additionally, once each calendar year during the Employment Term during which Executive spends at least 50% of the calendar year in India, the Company will provide, at its expense, round-trip, business-class air travel between the United States and India for Executive and his immediate family.

2. The Company shall at its expense maintain a term life insurance policy on the life of the Executive in the face amount of Five Hundred Thousand Dollars (US\$500,000) payable to such beneficiaries as Executive may designate; provided that, the Executive does not have any special health risks or conditions that would cause the rate of such life insurance plan to be substantially higher than the average rate for an individual of the same age as the Executive.

3. The Company shall (i) maintain one automobile for use by the Executive and shall pay the costs of an automobile for the Executive in the United States, with lease or loan payments not to exceed \$1,200 per month; (ii) pay directly or shall reimburse the Executive for the cost of insurance and fuel for such automobile; and (iii) provide the Executive with an automobile (Mercedes Benz) in India with a driver and shall pay for all costs, including insurance, repairs and fuel (such fuel payments shall cover the cost of fuel for two automobiles as the Executive uses his own car from time to time for Company business purposes) at a cost not to exceed \$12,000 per annum.

4. Being that the Company has determined that Executive should have personal security while in India, Executive and his family shall be provided with personal security while in India and paid for by the Company consistent with practices and procedures.

5. The Company shall pay the initial and yearly membership fees for The Belvedere Club at The Oberoi Hotel. The fee shall be paid directly to the club. The Company shall provide certain items of furniture, telecom lines and computer hardware necessary to maintain a home office for Executive.

For the avoidance of doubt, the benefits provided pursuant to paragraphs 3, 4 and 5 of this Schedule 6 shall be provided without regard to whether Executive spends at least 50% of the calendar year in India.

6. Once each year during the Term during which the Executive resides in US, the Company will provide, at its expense, round-trip, business-class air travel between the US and India for the Executive and his immediate family. In any given calendar year, Executive shall either receive the air travel benefit provided in paragraph 1 of this Schedule 6 or the air travel benefit provided in this paragraph 6, but not both.

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7. During Executive's travel to India in connection with Company business while Executive's domicile is in the United States, Executive shall be provided a \$150.00 per diem billeting allowance for each night Executive does not stay in a hotel.

8. The Company shall pay for the annual dues for a luncheon club in India for Executive's benefit amounting to US\$1,000 per annum and the sum may be increased marginally year to year. The club membership is in Executive's name (and paid for personally) and will remain as such as the initial fee is avoided.

9. This paragraph 9 shall apply only in the event that Executive and his immediate family have relocated their residence to India. In such event, then during the period of Executive's and his immediate family domicile outside the United States in connection with Company business, the Company shall pay Executive an education allowance equal to the private school tuition of Executive's children through secondary school; provided, however, that such education allowance shall not cover any costs associated with attendance at any post-secondary institution of higher learning.



The registrant is claimed confidential treatment with regard to portions of this exhibit. This filing omits confidential information (denoted by asterisks) submitted separately to the Division of Corporation Finance.

**DATED**

**2005**

- (1) CENTRICA PLC (for and on behalf of its Group Companies)
- (2) EXLSERVICE HOLDINGS, INC.
- (3) EXL SERVICE.COM (INDIA) PRIVATE LIMITED

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**FRAMEWORK AGREEMENT FOR  
THE PROVISION OF SERVICES**

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**AGREEMENT REFERENCE:  
CEN/2005/9464/BU**

Eversheds LLP  
Cloth Hall Court  
Infirmary Street  
Leeds LS1 2JB  
Tel: +44 (0) 113 243 0391  
Fax: +44 (0) 113 245 6188

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**BETWEEN**

- (1) Centrica plc (registered as a public limited company in England under number 3033654) whose registered office is at Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD (“ **Client** ”) (for and on behalf of Client Group);
- (2) ExlService Holdings, Inc., a Delaware corporation with its principal office at 350 Park Avenue, 10th Floor, New York, NY 10022, USA (“ **EXL US** ”); and
- (3) exl Service.com (India) Private Limited, an Indian private limited company with its principal office at 48 Sector 58, Noida, UP 201 301, India (“ **EXL India** ”).

**BACKGROUND**

- (A) Client wishes to enter into a relationship for the provision from time to time by a third party contractor of certain services to Client.
- (B) Through a process of competitive tender the Contractor has indicated its willingness to provide services of the type required by Client. The Contractor comprises EXL US and EXL India which are collectively to provide the Services.
- (C) The Contractor has agreed to provide certain initial services to Client in accordance with the terms of this Agreement, by entering into a series of Work Contracts with Client (as defined below).

**OPERATIVE PROVISIONS**

**1. DEFINITIONS AND INTERPRETATION**

- 1.1 In this Agreement the following expressions shall have the following meanings unless the context otherwise requires:

<b>“Acceptance”</b>	acceptance for each Testable Output, which shall occur on the day on which an Acceptance Certificate has been issued for such Testable Output
<b>“Acceptance Certificate”</b>	a confirmation (which can be in electronic format) to be issued by Client in relation to a Testable Output when the Acceptance Test(s) has been completed, and all the relevant Acceptance Criteria met or waived, for that Testable Output

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<b>“Acceptance Criteria”</b>	the criteria to be used to assess each Testable Output, as set out in <b>Annex 1</b> of each Work Contract
<b>“Acceptance Tests”</b>	such tests to be carried out by Client in respect of the Testable Outputs as are set out in the Transition Plan contained in <b>Annex 1</b> of each Work Contract
<b>“Affiliate”</b>	any Subsidiary or Holding Company of a company and any Subsidiary of any such Holding Company. “Subsidiary” and “Holding Company” shall each have the meaning set out in section 736 of the Companies Act 1985 (as amended)
<b>“Agreed Documents”</b>	<ul style="list-style-type: none"><li>(a) those documents relating to this Agreement, and to Work Contracts generally, contained in the separate bundle entitled “Agreed Documents Relating to the Framework Agreement for the provision of Services”, such bundle comprising the documents and items listed in <b>Schedule 17</b> and being signed or initialled by an authorised representative of each party and dated the same date as this Agreement, as may be varied from time to time by invoking the Change Control Procedure; and</li><li>(b) those documents relating to specific Work Contracts contained in a separate bundle entitled “Agreed Documents relating to Work Contract Reference:”, such bundle being signed by an authorised representative of each party and which is dated with the same date as the relevant Work Contract, as may be varied from time to time, by invoking the Change Control Procedure</li></ul>

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“Annex”	an annexure to a Work Contract
“Anticipated Services”	back office processes associated with customer transfers (including meter reading disputes), billing, metering, customer payment processing, Homemove and account maintenance, and electricity pre-payment
“Assets”	any item of equipment, infrastructure, network, hardware and software, premises and furniture which the Contractor uses to perform the Services
“Authorised Representative”	the relevant individual having responsibility for the matter in question for each of Client and the Contractor as detailed in <b>paragraph 7 of Schedule 6</b>
“BCP”	the business continuity plan designed to ensure the Contractor is able to continue to provide the Services in the event of certain specified disruptive incidents, based on the BCP principles being set out in <b>Schedule 8</b>
“Business Day”	a day (other than a Saturday or Sunday) on which commercial banks are open for deposit taking in London
“Change Control Procedure”	the procedure set out in <b>Schedule 4</b>
“Change Notices”	those notices issued pursuant to the Change Control Procedure
“Charges”	the Implementation Charges and the Service Charges
“Client Competitor”	***

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**“Client Group”**

any company which on the date of this Agreement or during the term of the Agreement is, in relation to Client, its Affiliate

**“Client Materials”**

the software, hardware and other materials which are to be provided by Client to the Contractor pursuant to this Agreement, together with any other software, hardware and other materials which are provided or made available by Client and/or its sub-contractors to the Contractor for the purposes of this Agreement

**“Confidential Information”**

will mean and include:

- (a) any information of a confidential nature, including documents, letters, plans, diagrams, sketches, drawings, photographs, models, specifications, software, programs, data and any other material bearing or incorporating any information relating to the disclosing party and/or its know-how, business, affairs, customers, contractors and/or assets disclosed to the receiving party, whether in writing, orally or by any other means, by the disclosing party or any third party acting on its behalf, whether before, after or on the Effective Date including for the avoidance of doubt the information contained in the CD containing the Contractor’s pricing model and formulae included in the Agreed Documents;
- (b) in respect of Client only, analyses, compilations, studies, notes and other documents prepared by the Contractor which contain or otherwise reflect or are generated from any such information specified in **paragraph (a)** above; and

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(c) information of a confidential nature obtained by observation during visits to premises,

but will exclude any part of such information which (and which can be shown by documentary evidence):

- (i) is or becomes available in the public domain without breach of this Agreement;
- (ii) a party can prove is lawfully in its possession free of any restriction as to its use or disclosure before the date of the disclosure;
- (iii) is or was received by the Client on the one hand and EXL US and/or EXL India on the other from any third party not acting on behalf of the other of them where such third party has the right to disclose such information; or
- (iv) subject to **clauses 36.2** and **36.3** , Authorised Representatives of the parties have agreed in writing may be disclosed

**“Continuation Period”**

a period following the date of termination of a Work Contract during which Client may elect to continue to receive certain Services, as more specifically described in **clause 33.7**

**“Contractor”**

each and/or both (as appropriate) of EXL US and EXL India

**“Contractor Competitor”**

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<b>“Contractor Covenant” or “Contractor Covenants”</b>	each (and all, as appropriate) of the covenants contained in <b>Schedule 13</b>
<b>“Contractor Software”</b>	Software owned or licensed by the Contractor or its Affiliates (excluding the Client Materials)
<b>“Contract Period”</b>	in relation to a Work Contract, the period from the Contract Term Start Date until the date of termination of such Work Contract, in accordance with the terms of this Agreement or such Work Contract)
<b>“Contract Term Start Date”</b>	the date upon which a Work Contract comes into force, such date being specified in each Work Contract
<b>“Contract Year”</b>	the period of 12 months commencing on the Effective Date and thereafter each consecutive period of 12 months, and in the final Contract Year the period between the last anniversary of the Effective Date and the date of expiry or termination of this Agreement
<b>“Control”</b>	shall have the meaning set out in section 416 of the Income and Corporation Taxes Act 1988
<b>“Data Protection Agreement”</b>	the data protection agreement signed by the parties, substantially in the form set out in Exhibit 1
<b>“Defects Notice”</b>	a notice given under <b>clause 7.6</b> using the pro forma set out in <b>Schedule 10</b>
<b>“Deliverable”</b>	a defined output specified in the Transition Plan in <b>Annex 1</b> of each Work Contract, necessary in order for the Contractor to deliver the Transition Plan in accordance with its terms
<b>“Dependency” or “Dependencies”</b>	any or all of the specific actions to be taken by Client as are set out in this Agreement or the relevant Work Contract

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<b>“Direct Costs”</b>	has the meaning given to such term in <b>clause 22.2</b>
<b>“Dispute Resolution Procedure”</b>	the procedure for the resolution of disputes contained in <b>clause 31</b>
<b>“Effective Date”</b>	the date of commencement of this Agreement, being the date upon which all of the conditions set out in <b>clause 2.1</b> are satisfied
<b>“Emoluments”</b>	all and any wages, salaries, bonuses, commissions, PAYE, national insurance contributions and other periodic outgoings (including pensions contributions) (or equivalent payment obligations in a jurisdiction other than England) attributable to the employment of any employees
<b>“Employment Liabilities”</b>	compensation, awards, losses, costs, claims, fines, penalties, damages, expenses (including legal and other professional expenses) or liabilities relating to the employment/termination of employment
<b>“Exit Plan”</b>	an exit plan based on the principles contained in <b>Schedule 9</b>
<b>“Failure”</b>	a failure of the Contractor Covenants, as described in <b>paragraph 3.2 of Schedule 13</b>
<b>“FOIA”</b>	the Freedom of Information Act 2000
<b>“Force Majeure”</b>	has the meaning given to it in <b>clause 29.4</b>
<b>“Good Industry Practice”</b>	using standards, practices, methods and procedures which comply with all applicable Regulations and utilising that degree of skill and care, which would reasonably and ordinarily be expected from a skilled and experienced person engaged in a similar type of undertaking
<b>“Grouped Work Contract”</b>	a Work Contract that is stated to be grouped with one or more other Work Contracts for certain purposes, as set out in such Work Contract, which may include grouping for the purpose of transition, volume forecasting and/or gain share

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<b>“Hardware”</b>	any and all computer, telecommunication and network equipment, cabling and any physical asset which relies in any respect on computer hardware or other information technology (whether embedded or not) used in the provision of the Services
<b>“Implementation”</b>	the process of transferring the provision of the Services (or some of them) from Client to the Contractor
<b>“Implementation Charges”</b>	the charges payable by Client to the Contractor for the Contractor’s provision of the Implementation Services, as contained in each Transition Plan in <b>Annex 1</b> of each Work Contract
<b>“Implementation Period”</b>	the period between the Contract Term Start Date specified in a Work Contract and Acceptance of the final element of Implementation for the Services the subject of such Work Contract
<b>“Implementation Services”</b>	the services to be provided as part of a Transition Plan as set out in <b>Annex 1</b> of each Work Contract
<b>“Indian Regulations”</b>	all laws and legislation of India applicable to the Services and/or the output from the Services
<b>“Initial Term”</b>	the minimum term specified in each Work Contract
<b>“Inscope Change”</b>	has the meaning given to it in <b>Schedule 4</b>
<b>“Intellectual Property Rights”</b>	patents, trade marks, design rights (whether registrable or otherwise), applications for any of the foregoing, copyrights, database rights, know-how, trade or business names, and other similar rights or obligations whether registrable or not in England and/or India

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<b>“Key Milestone”</b>	a key stage in Implementation (whether a Deliverable or an element of the Implementation Services), each Key Milestone being an indicator of whether the Contractor is reaching the required levels of progress within the timescales set out in the Transition Plan contained in Annex 1 of each Work Contract and collectively indicating the likelihood of the Contractor being able to deliver the Transition Plan in accordance with its terms
<b>“Key Staff”</b>	the individuals to be appointed by the Contractor to the roles specified in <b>Schedule 5</b> and <b>Annex 8</b> of each Work Contract and any Staff appointed as assistant manager grade or above
<b>“KPI”</b>	the Service Levels described as key performance indicators in <b>Annex 5</b> of each Work Contract
<b>“Liquidated Damages”</b>	liquidated damages payable by the Contractor to Client for failing to achieve Key Milestones during the Implementation Period, as specified for each Work Contract in accordance with the process in <b>Schedule 2</b> and more precisely detailed in <b>Annex 1</b> of each Work Contract
<b>“Minimum Term”</b>	the minimum term of this Agreement, being the period from the Effective Date until the date which is three years from the Service Commencement Date of the first Work Contract under which the Contractor is to supply Services to the Client
<b>“Month”</b>	a calendar month (and “Monthly” shall be construed accordingly)
<b>“Outscope Change”</b>	has the meaning given to it in <b>Schedule 4</b>

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<b>“party”</b>	any of Client, EXL US and EXL India
<b>“parties”</b>	the Client on the one hand and EXL US and EXL India on the other
<b>“Permitted Contractor”</b>	has the meaning given to it in <b>clause 44.1</b>
<b>“Premises”</b>	the site(s) from which the Contractor provides the Services to Client as specified in a Work Contract and any other site (or any part thereof) agreed from time to time by the parties in writing to have Services performed from it for Client
<b>“Pre-Process training”</b>	includes induction to the Contractor and Client, introduction to the utilities industry in the UK and includes training on Data Protection Act and Disability Discrimination Act
<b>“Pricing Model”</b>	the menu of prices and methodology for translating such menu of prices into individual Work Contracts, as is contained in <b>Schedule 7</b>
<b>“Process Methodology”</b>	the process and methodology to agree the specific terms of a Work Contract, set out in <b>Schedule 2</b>
<b>“Process Training”</b>	includes training on systems which are used to deliver the processes
<b>“Project Materials”</b>	any and all works of authorship, products and materials developed, written or prepared by the Contractor specifically for the purposes of this Agreement including the process and related documents produced by the Contractor in accordance with the baseline analysis agreement and all computer programs, reports, studies, data, diagrams and charts and all reports and other outputs generated by the Contractor as part of its obligations (excluding those prepared for internal use), save as otherwise agreed in writing by the parties

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<b>“ProMPT”</b>	the Contractor’s process management and performance tracking system known as ProMPT
<b>“Regulations”</b>	UK Regulations and Indian Regulations
<b>“Regulatory Authority”</b>	all relevant governmental, statutory or regulatory bodies in England and/or India or any other competent authority or entity (including, in respect of UK Regulations, the Financial Services Authority and the Information Commissioner) as the same may be replaced from time to time having responsibility for the regulation or governance of activities which include all or some of the Services or the use or application of the output from the Services
<b>“Service Charges”</b>	the charges payable by Client to the Contractor for the provision of the Services, as set out in <b>Annex 6</b> of each Work Contract
<b>“Service Commencement Date”</b>	in respect of each Work Contract the date upon which the Contractor first starts to perform the Services associated with a Service Element under that Work Contract
<b>“Service Credits”</b>	service credits payable by the Contractor to Client in the circumstances and for the sums specified in <b>Annex 5</b> of each Work Contract
<b>“Service Element”</b>	individual components of the Services, as are specified in <b>Annex 2</b> of each Work Contract
<b>“Service Level” and “Service Levels”</b>	any of, or all of, the service levels set out in <b>Schedule 3</b> and <b>Annex 5</b> and <b>Annex 7</b> of each Work Contract
<b>“Services”</b>	the services to be performed from time to time by the Contractor as identified in each Work Contract then in force
<b>“Shared Resources”</b>	Staff who are not dedicated to performance of the Services, being only those identified as such in <b>Schedule 5</b> and <b>Annex 8</b> of each Work Contract

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<b>“Software”</b>	any and all computer programs and where appropriate licences to use the same, including all modules, routines and subroutines of such programs, used in the provision of the Services
<b>“Staff”</b>	those employees of the Contractor and employees of any Permitted Contractor (in each case whether full time, part time or temporary) delivering the Services from time to time
<b>“Testable Output”</b>	each output to be tested in relation to Deliverables and Implementation Services as expressly referred to as a ‘Testable Output’ in <b>Annex 1</b> of a Work Contract
<b>“Transition Plan”</b>	the plan, including the Deliverables, Implementation Services and Key Milestones, contained in <b>Annex 1</b> (together with the terms and conditions relating to these), that governs the way in which the Contractor must prepare for and carry out the migration of the Services from Client to the Contractor
<b>“Transition Project Plan”</b>	the plan which sets out the process to manage the transition of the Services to the Contractor
<b>“UK Regulations”</b>	all laws and legislation of England applicable to the Services and/or the output from the Services (including, where applicable, the Data Protection Act 1998 and all rules, directions, regulations and recommendations issued by Regulatory Authorities which are applicable to the Services and in the case of recommendations treated as binding by Client)
<b>“VAT”</b>	value added tax imposed by the Value Added Tax Act 1994

<b>“Warranty” and “Warranties”</b>	any of, or all of, the warranties contained in <b>clause 11</b>
<b>“Work Contract”</b>	a work contract agreed and signed by Client and the Contractor in relation to Services based on the pro forma set out in <b>Schedule 15</b>
<b>“Work Contract Year”</b>	in respect of each Work Contract, the period of 12 months commencing on the Service Commencement Date, thereafter each consecutive period of 12 months, and in the final Work Contract Year the period between the last anniversary of the Service Commencement Date and the date of expiry or termination of the Work Contract
<b>“Year 2000 Compliant”</b>	the definition of Year 2000 Compliant as set out in “Amplification of the Definition and Rules” in the British Standards Institution document DISC PD 2000-1:1998

- 1.2 **Schedules 1 to 18** form an integral part of this Agreement and references to this Agreement include the Schedules to this Agreement.
- 1.3 References in this Agreement to clauses or Schedules are to clauses of, or Schedules to, this Agreement. For the avoidance of doubt references in a Work Contract to Annexes shall be to the Annexes of that Work Contract.
- 1.4 A reference to this Agreement shall include all Work Contracts entered into pursuant to this Agreement in force from time to time.
- 1.5 The headings used in this Agreement are for convenience only and do not affect the construction or interpretation of this Agreement.
- 1.6 References to a statute or statutory provision include that provision as from time to time modified or re-enacted or consolidated whether before or after the date of this Agreement and any subordinate legislation made under it.
- 1.7 Unless the context otherwise requires, words importing the singular shall include the plural and vice versa and reference to any gender shall include the other genders.



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- 1.8 Words importing individuals or persons shall include companies, corporations, firms, unincorporated bodies of persons and partnerships.
  - 1.9 The words “include”, “including”, “includes”, “in particular” or any similar expression are to be construed as if they were immediately followed by the words “without limitation”.
  - 1.10 The obligations of EXL US and EXL India under this Agreement are joint and several. However, complete fulfilment by EXL India of obligations imposed on “the Contractor” under this Agreement will discharge EXL US of those same obligations and vice versa. Where any consent or agreement is required from the Contractor, EXL US and/or EXL India pursuant to this Agreement the consent or agreement (as appropriate) of their Authorised Representative (where appropriate) and otherwise either of EXL US or EXL India shall constitute the consent or agreement (as appropriate) of both of them. Where there is any requirement on Client to provide information, support or carry out activities in relation to the Contractor, and the Agreement is silent as to which entity or person such requirement shall be provided, the fulfilment of that requirement to one of EXL US and EXL India shall constitute fulfilment of that requirement as regards both of them without further enquiry being necessary by Client.
  - 1.11 If there is any ambiguity between the terms of a Work Contract, the annexes to a Works Contract, **clauses 1 to 49** of this Agreement and the Schedules, the following order of priority shall prevail:
    - 1.11.1 the Work Contract;
    - 1.11.2 the annexes to a Works Contract;
    - 1.11.3 **clauses 1 to 49** of this Agreement;
    - 1.11.4 the Schedules; and
    - 1.11.5 the Agreed Documents.

## 2. **CONDITIONS PRECEDENT**

- 2.1 The obligations of each party under this Agreement are conditional upon and shall not come into effect until the Contractor has delivered an executed copy of the Data Protection Agreement dated the same date as this Agreement.

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- 2.2 Notwithstanding **clause 2.1** , the following clauses shall have effect immediately upon the date of signature of this Agreement by all the parties: **1** (to the extent applicable), **2** , **32** , **36** , **37** , **38** , **47** and **48** .
- 2.3 If the condition in clause 2.1 has not been satisfied or waived by Client by August 31, 2005 Client may, at no cost, terminate this Agreement immediately by serving written notice upon the Contractor.

3. **TERM OF AGREEMENT AND OF INDIVIDUAL WORK CONTRACTS**

- 3.1 This Agreement shall commence on the Effective Date and, subject to **clauses 32** and **33.7** , shall continue for the Minimum Term.
- 3.1.1 No later than six months prior to the expiry of the Minimum Term, Client may notify the Contractor in writing that it wishes to extend the Agreement for a further period of 12 months from the date of expiry of the Minimum Term (such period being the **“First Extension Period”** ).
- 3.1.2 No later than six months prior to the expiry of the First Extension Period Client may notify the Contractor in writing that it wishes to extend the Agreement for a further period of 12 months from the date of expiry of the First Extension Period (such period being the **“Second Extension Period”** ).
- 3.1.3 For the avoidance of doubt, extension of this Agreement pursuant to **clauses 3.1.1** and/or **3.1.2** shall extend the term of any Work Contract unless Client advises the Contractor otherwise in writing in relation to any Work Contract.
- 3.2 The expiry or termination of this Agreement shall have the following effect in relation to any Work Contract in force immediately prior to the expiry or termination of this Agreement:
- 3.2.1 Save where **clause 3.2.3** applies, if Client gives notice in writing to the Contractor prior to the date of expiry or termination of this Agreement (the **“Termination Date”** ) that it wishes any Work Contract that would otherwise then be in force to terminate on the Termination Date any such Work Contract shall terminate on the Termination Date contemporaneously with this Agreement.
- 3.2.2 Save where **clause 3.2.3** applies, if Client does not give any notice of the type envisaged in **clause 3.2.1** then this Agreement shall not terminate on the Termination Date but shall stay in full force and effect (other than providing for the entering into of any new Work Contract) until expiry or termination of the last Work Contract remaining in force following the Termination Date.

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- 3.2.3 Where the Contractor terminates this Agreement either pursuant to **clause 32.4** or, pursuant to **clause 29.3.2** in circumstances where all the Services then being provided under this Agreement are terminated pursuant to that clause, the termination of this Agreement shall terminate any Work Contracts outstanding at the date of such termination.
- 3.3 Any Work Contract shall commence on the Contract Term Start Date and, subject to **clauses 3.1 , 3.2 and 33.7** and elsewhere as specified in this Agreement, shall continue for the Initial Term and thereafter until terminated by at least three months' written notice from any party.
- 3.4 Notwithstanding the above, Client may terminate a Work Contract within its Initial Term provided that Client serves three (3) months' prior written notice upon the Contractor. If Client exercises its right to terminate under this **clause 3.4** in respect of a Work Contract, and in relation to each Work Contract so terminated, Client shall pay within 30 days of the date the Work Contract terminates:
- 3.4.1 the sum of £385 per FTE (as defined in the relevant Work Contract) engaged in the provision of the Services on a dedicated basis under and in accordance with that Work Contract and this Agreement as at the date of the termination of the Work Contract; and
- 3.4.2 the unrecovered part of any infrastructure and/or set-up costs specific to the Work Contract (such costs to be amortised on a straight line basis over the original Contract Period of the Work Contract) and the Contractor's reasonable demobilisation expenses (being employee severance costs (in such amounts as set out in the appropriate sections of the Agreed Documents) or, if less, the cost of the Contractor in relocating employees to another site, together with technology and telecoms decommissioning). The Contractor shall mitigate all such costs to the extent reasonable. Any alteration to the Contractor's separation policy set out in the Agreed Documents in relation to Staff shall not, unless and to the extent required by Indian Regulations, lead to or give rise to any increase in the severance costs payable by Client under this clause. If Client exercises its rights under this clause the Contractor shall give notice to Staff at such time, consistent with the separation policy, as Client shall require.

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- 3.5 Notwithstanding the above, if the Contractor Covenants are in Failure, Client may terminate this Agreement and all Work Contracts under it on three (3) months prior written notice without paying any compensation pursuant to **clause 3.4** and, if it wishes, exercise its rights under **Schedule 14** in which case this Agreement and all Work Contracts shall terminate in accordance with the terms of that Schedule.
- 3.6 For the avoidance of doubt a Work Contract may be signed on behalf of the Contractor by an Authorised Representative of either EXL India or EXL US.
4. **NO EXCLUSIVITY**
- 4.1 Save as Client may expressly agree in writing in a Work Contract, this Agreement grants no exclusivity to the Contractor over any services or gives any commitment to take a specific volume or minimum volume of the services which Client wishes to procure, whether or not such services are similar to or the same as those supplied by the Contractor to Client pursuant to a current Work Contract.
- 4.2 None of the parties has any commitment to enter into any Work Contract with the other parties during the term of this Agreement.
5. **FORMATION OF WORK CONTRACTS**
- 5.1 This Agreement sets out the basic uniform terms of each Work Contract and establishes the overarching principles and processes that will apply to the provision of Services by the Contractor to Client. In respect of the Anticipated Services, Work Contracts shall strictly adhere to the principles contained in the Schedules and the Annexes to the draft Work Contract contained in **Schedule 15** , save only to the extent not applicable to the relevant Services or if Client agrees in writing to an express variation.
- 5.2 Whenever Client, or any member of Client Group requires, and the Contractor agrees to provide services, a Work Contract substantially similar to the form set out in **Schedule 15** shall be agreed and signed by Authorised Representatives of Client and the Contractor and Client and the Contractor will, acting in good faith, follow the Process Methodology. It is acknowledged by the parties that for Services, other than Anticipated Services, the terms contained in the Annexes to the Work Contract may need to be varied insofar as the draft provisions are not relevant to such Services.
- 5.3 To facilitate the commercial agreement of Work Contracts, Client and the Contractor have agreed the Pricing Model and recognise that, unless agreed in writing to the contrary by Client, whenever applicable this will be used to determine the appropriate pricing for any Work Contract. Accordingly in relation to any Work Contract Client and the Contractor, acting in good faith and in an open and transparent manner, shall:
- 5.3.1 save where agreed to the contrary with Client in writing, apply the Pricing Model to determine the prices properly payable for the Services required under a particular Work Contract; and

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- 5.3.2 unless agreed in writing to the contrary by Client in writing, adhere strictly to the terms of this Agreement.
- 5.4 Where the Pricing Model is not applicable to specific Services the subject of a proposed Work Contract, the parties shall negotiate the charges to be applicable to the new Work Contract in good faith (and in an open and auditable manner), based always on the underlying principles of the Pricing Model.
- 5.5 To facilitate the application of the Agreement the Contractor agrees that it will:
- 5.5.1 respond to a Client request for Services on the basis set out in this Agreement; and
  - 5.5.2 promptly provide such explanations and information as Client shall require to demonstrate that it is complying in all respects with the terms of this Agreement including this **clause 5** .
- 5.6 The provisions of a Work Contract shall override and exclude any other conditions which the Contractor may seek to impose or any contrary or additional terms and conditions as contained in or referred to in any other documents and/or correspondence from the Contractor in respect of the services which are the subject of the Work Contract.

6. **APPOINTMENT**

- 6.1 During the Contract Period of any Work Contract the Contractor shall provide and deliver:
- 6.1.1 the Implementation Services; and
  - 6.1.2 the Services,
- to Client in accordance with and subject to the terms in such Work Contract and this Agreement.

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## 7. TRANSITION PLAN

### Implementation Services

- 7.1 During the Implementation Period of a Work Contract the Contractor shall provide the Implementation Services and the Deliverables in accordance with the relevant Transition Plan (including provision of any training modules contained in such Transition Plan, in the manner set out in **Annex 10** of each Work Contract) and the technical solution and design obligations set out in **Schedule 3** and **Annex 7** of the relevant Work Contract.
- 7.2 The Contractor shall carry out the Implementation Services and deliver the Deliverables so that the relevant Implementation Services are fully completed, and the Deliverables are achieved, all to the standard required by this Agreement within the timescales detailed in **Annex 1** of the relevant Work Contract and, where parts of the same are Testable Outputs, Acceptance has occurred for such Testable Outputs before the Service Commencement Date for that Service Element .
- 7.3 The Contractor will perform the Implementation Services and deliver the Deliverables so as to minimise possible disruptions to Client and Client's customers during the Implementation Period.

### Right of Inspection

- 7.4 Client shall have, during normal business hours and otherwise on reasonable notice, the right (but not so as to unreasonably delay or impede the progress of the Implementation Services or Deliverables) itself to inspect and view the state and progress of the Implementation Services and Deliverables (including a physical inspection of the Premises, the systems, Software, records, (including employee records) and training procedures (to ensure compliance with **Annex 10** of each Work Contract)) solely to ascertain whether the Transition Plan is being executed in accordance with this Agreement. If reasonably requested by Client, the Contractor shall provide copies of any documents and reports in relation to the Implementation Services and Deliverables.
- 7.5 Client may at any time during the Implementation Period require the Contractor reasonably to cooperate with Client in the inspection, monitoring and testing of the Implementation Services and Deliverables.

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### **Service of Defects Notice**

- 7.6 If Client (acting reasonably) considers that any Implementation Service or Deliverable has not been or is not being provided in accordance with this Agreement by the Contractor, it may at any time serve on the Contractor a Defects Notice specifying the relevant defect(s) in the Implementation Services or Deliverables which require remedy together with a reasonable time period for remedying such defects. If following such remedial period the Contractor remains in breach of any of its obligations under the Implementation Services or in respect of Deliverables, Client may terminate this Agreement in accordance with **clause 32.1** . For the avoidance of doubt if Client serves a Defect Notice then Client may not also terminate this Agreement pursuant to **clause 32.1** in respect of the same failure until the period given in the Defects Notice for rectification has expired and then only if the relevant defect has not been rectified. Client agrees that it shall not exercise its right to terminate this Agreement in accordance with this **clause 7.6** for a de minimis failure by the Contractor which has led to a Defects Notice being issued.

### **Effect of Defects Notice**

- 7.7 Client shall have due regard to any representations made to it by the Contractor concerning any Defects Notice given under **clause 7.6** .
- 7.8 The Contractor shall as soon as practicable and in any event by the date specified by Client and at its own expense take all such measures as shall be necessary to remedy the defects of the Contractor specified in the Defects Notice.
- 7.9 If the Contractor fails to remedy the matter which is the subject of a Defects Notice (the “ **Defect** ”) by the expiry of the time period specified in the Defects Notice then Client may suspend those Service Elements, or parts thereof, which are affected by the Defects Notice pursuant to **clause 28** , or may terminate this Agreement for breach in accordance with **clause 32.1.1** .
- 7.10 Client’s rights under **clauses 7.6 to 7.9** shall be without prejudice to any other rights or remedy Client may have.

### **Consolidation Period**

- 7.11 Following the first Service Commencement Date for any Work Contract there shall be a 90 day consolidation period during which time the Contractor shall monitor the performance under the relevant Work Contract but, save as set out in **clause 7.13** ,

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in relation to which period no claim shall be made by Client for Service Credits. If during such consolidation period the level of performance under that Work Contract is not achieving some or all of the applicable Service Levels then Client at its option may issue a notice to the Contractor (a “ **Consolidation Period Notice** ”) that it wishes to suspend the Services (either in part or whole) pursuant to **clause 28** . If at the end of such consolidation period the level of performance of the relevant Work Contract fails to achieve some or all of the Service Levels then Client may serve upon the Contractor a notice to terminate the relevant Work Contract pursuant to **clause 32.2.1** . Client agrees that it shall not exercise its right to terminate this Agreement in accordance with this **clause 7.11** for a de minimis failure by the Contractor which has led to a Consolidation Period Notice being issued. In addition, if for any Work Contract, there is a Service Element for which the Implementation Period extends beyond the 90 day consolidation period specified in this clause then for that Service Element only the consolidation period shall be the planned date for completion of Implementation for that Service Element plus seven days.

- 7.12 In the event that Client terminates a Work Contract in accordance with **clause 7.11** , the Contractor shall take such steps as are necessary to return the Services to Client in accordance with **clause 33** and the Exit Plan. Without prejudice to the parties’ rights and remedies arising from any termination of a Work Contract, and as set out in **clause 33** and the Exit Plan, the Contractor shall pay its own costs and charges necessarily and properly incurred in migrating the Services to Client or Client’s nominated third party supplier.
- 7.13 Notwithstanding the above, during the Implementation Period Client will monitor the Service Level dealing with “available resource” (ie the number of full time equivalent employees) set out in **Annex 5** of each Work Contract and, if the available resource does not meet the related KPI, Client shall be entitled to claim Service Credits from the Contractor in accordance with **Annex 5** of such Work Contract.

## 8. **ACCEPTANCE PROCESS**

### **Acceptance Tests and Acceptance Criteria**

- 8.1 Testable Outputs for Deliverables and Implementation Services are to be subject to Acceptance Tests in accordance with the Acceptance Criteria.
- 8.2 The provisions of **Annex 1** of each Work Contract shall determine how the Acceptance Tests and Acceptance Criteria are to be agreed, determined and carried out for Implementation Services and Deliverables.



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**Client Representations**

- 8.3 The Contractor shall have due and proper regard to any representations made by Client during or regarding Client's consideration of any Testable Output against the relevant Acceptance Criteria and any defects, errors or items to be resolved, improved, amended, varied or completed for the relevant Acceptance Criteria to be met.

**Issue of Acceptance Certificate**

- 8.4 Provided that Client, acting reasonably, is satisfied in relation to any Testable Output that:

8.4.1 all Acceptance Criteria relating to the same have been met;

8.4.2 any incomplete part of the Testable Output (a) will not impact upon the Contractor's ability to perform the relevant Service Element in accordance with this Agreement and (b) shall be completed within ten days (or such other period as shall be agreed by the parties) of the issue of the relevant Acceptance Certificate in accordance with the terms of this Agreement; and

8.4.3 all documents required to be delivered to Client in relation to that Testable Output in accordance with this Agreement have been provided,

Client shall, immediately upon being requested so to do by the Contractor, issue the relevant Acceptance Certificate relating to the Testable Output in question.

**Effect of Issue**

- 8.5 The issue of an Acceptance Certificate in relation to any Testable Output and Acceptance occurring shall confirm acceptance by Client that the relevant Testable Output has met the relevant Acceptance Criteria. Whilst the issue of an Acceptance Certificate will confirm completion of an element of the Implementation Services, this does not in any other way lessen or affect the obligations of the Contractor under this Agreement in relation to the Services or signify Client's approval of the means of delivery of each of the Testable Outputs or Services.

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## 9. DELAYS IN TRANSITION PLAN AND REMEDIES FOR DELAYS

### Notice of Delay

- 9.1 If at any time the Contractor becomes aware that any of the Services (including any Implementation Services and/or Deliverables) will not be, or is unlikely to be, completed (including any Key Milestone not being delivered in full) in accordance with this Agreement by, or any Acceptance of a Testable Output not been achieved in accordance with any timescales set out in this Agreement (whether or not the delay is caused by the Contractor, Client or any other reason) the Contractor shall forthwith give notice to Client to that effect specifying:

- 9.1.1 the reason for the delay or likely delay; and
- 9.1.2 an estimate of the likely effect of the delay on the performance of the relevant Services, completion of the relevant Implementation Services, Deliverable or Key Milestone and the effect on the commencement of the relevant Services (taking into account any measures that the Contractor proposes to adopt to mitigate the consequences of the delay, in accordance with **clause 9.3**).

### Supply of Information

- 9.2 Following service of a notice by the Contractor pursuant to **clause 9.1** the Contractor shall promptly supply to Client any further information relating to the delay which from time to time:

- 9.2.1 is received by or known to the Contractor; or
- 9.2.2 is reasonably requested by Client (to the extent the Contractor knows of, has the same in its possession at the relevant time or is able to obtain it on reasonable enquiry).

### Duty to Mitigate

- 9.3 Each party shall use all reasonable endeavours and take all reasonable steps to mitigate the consequences of any delay which is the subject of a notice pursuant to **clause 9.1** and the Contractor shall implement any steps reasonably requested by Client. This obligation shall be without prejudice to any other rights of Client in respect of, or arising out of, such delay, provided that Client shall not request steps of the Contractor in respect of any failure which is already the subject of a Defects Notice where any timescale relating to the remedy of such failure in such Defects Notice has not yet expired. For the avoidance of doubt the Contractor shall not be responsible to the extent that a delay is caused by a Force Majeure which affects only Client's ability to receive the Services and not the Contractor's ability to perform the Services, but shall nevertheless continue to use all reasonable endeavours in accordance with this **clause 9.3**. Where the Contractor is unable to mitigate its costs as a consequence of Client's action or inaction, the Contractor shall not be in breach of this **clause 9.3**.

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10. **SERVICE PROVISION**

10.1 The Contractor shall provide each Service Element from the relevant Service Commencement Date in accordance with:

10.1.1 the terms of this Agreement and the relevant Work Contract;

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- 10.1.2 Client's data security policy as provided to the Contractor in the Agreed Documents and as amended by Client in writing from time to time, provided that where the data security policy imposes obligations upon the Contractor in addition to those contained in **Schedule 18**, then the Contractor shall comply with such policy to the extent that it can reasonably do so without necessitating its invocation of the Change Control Procedure;
- 10.1.3 Good Industry Practice;
- 10.1.4 Client's reasonable instructions from time to time, provided that if the Contractor reasonably considers such requirements to be an Outscope Change, it may refer such instructions to the Change Control Procedure; and
- 10.1.5 the information security requirements contained in **Schedule 18**.
- 10.2 The Contractor shall ensure that the Services (including the Implementation Services where applicable) are performed by:
- 10.2.1 members of the Key Staff, where set out in the relevant Work Contracts; and
- 10.2.2 such other members of the Staff who possess suitable skills and experience for the performance of the Services, and that all such Staff (including Key Staff) comply with all the terms of this Agreement applicable to them.
- 10.3 The Contractor shall at all times cooperate with and assist Client as Client may properly require in order to enable Client to satisfy its legal and regulatory obligations in connection with the provision of the Services, provided that if the Contractor reasonably considers such requirements to be an Outscope Change, it may refer such instructions to the Change Control Procedure. In addition, and without prejudice to **clause 36**, the Contractor will also make available to Client all relevant information the Contractor maintains for the purpose of complying with its obligations under this Agreement, each Work Contract and the Data Protection Agreement and which is requested by Client solely to comply with its legal and regulatory obligations.
- 10.4 Client shall perform its obligations identified in this Agreement and each Work Contract. If Client does not perform any such obligation either by the time specified, or to the reasonable standards required, then the Contractor shall be excused performance of any of its related obligations to the extent that Client's failure to

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perform has given rise to the Contractor's failure to perform its obligations. This shall, save in the case where injunctive or similar equitable relief is appropriate, be the Contractor's sole remedy for a failure by Client to perform its obligations. For the avoidance of doubt any non-payment of or dispute over the amount or payment of the Charges shall not permit the Contractor to cease or alter the performance of the Services but shall be referred to the Dispute Resolution Procedure.

- 10.5 The Contractor shall perform the Services in accordance with Service Levels set out in **Annex 5** of each Work Contract.
- 10.6 Client shall provide to the Contractor volume data and forecasts in the manner, frequency and containing the detail set out in **Annex 3** of each Work Contract.
- 10.7 Whenever the Contractor provides training to Staff, it shall comply with the training requirements set out in **Annex 10** of each Work Contract.
- 10.8 The Contractor shall provide the Services up to the Actual Volume provided by Client fully in accordance with the KPIs and Service Levels applicable to those Actual Volume and the terms of this Agreement.
- 10.9 Where Client requires Services which are in volume terms outside the scope of the Agreed Tolerance as defined in **paragraph 24.1** of **Annex 3** to **Schedule 15** the Contractor shall use its reasonable endeavours, save as otherwise agreed, to provide all such Services which are in excess of the Actual Volumes on equivalent financial terms as the then current Services and in accordance with the terms of this Agreement and in accordance with the provisions of **Annex 3** of each Work Contract.
- 10.10 Client shall provide the Client Materials in a timely manner to enable the Contractor to comply with its obligations pursuant to this Agreement.
- 10.11 Following the prior written consent of Client (not to be unreasonably withheld or delayed), the Contractor's employees may access such of Client's premises (subject always to such supervision as Client believes reasonable) solely to the extent that such access is necessary for the Contractor's proper performance of the Services. The Contractor's employees shall comply with all reasonable directions of Client issued to the Contractor's employees whilst upon Client's premises.
- 10.12 Should the Contractor be unable to perform the Services in accordance with the terms of this Agreement and it reasonably believes that such inability is due to the actions or inactions of a member of the Client Group, the Contractor shall notify this

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to Client without delay and Client and the Contractor agree to use all reasonable endeavours to attempt to resolve any such issue, provided that (save as set out specifically elsewhere in this Agreement), this **clause 10.12** shall not of itself excuse the Contractor from its obligation to provide the Services hereunder, nor shall it of itself place any obligation on Client to carry out any action or cease any action that are not placed on Client elsewhere in this Agreement.

10.13 Save that the Contractor may not make any such reference referred to in this **clause 10.13** until Client has made the disclosure to its employees referred to in **clause 36.5.3**, the Contractor shall, unless and until Client advises otherwise, and subject as stated below, list Client as a reference on all pitches and proposals EXL US or any of its Affiliates makes to undertake business processing services on behalf of a third party. The Contractor shall advise Client in generic terms whenever it is put forward as a reference provided that it shall only list Client as a reference in relation to pitches or proposals made to Client Competitors with Client's prior written consent.

## 11. **CONTRACTOR & CLIENT WARRANTIES**

11.1 EXL US warrants and represents to Client that at the Effective Date;

11.2 EXL US is properly constituted and incorporated under the laws of the State of Delaware and has all necessary authority, power and capacity to enter into this Agreement, the Data Protection Agreement and, during the term of this Agreement, Work Contracts;

11.3 EXL US has performed sufficient due diligence to fully satisfy itself in respect of the obligations contained in this Agreement, the Data Protection Agreement and any Services which may be entered into pursuant to this Agreement on such date;

11.4 any and all materials, documents, drawings, plans, data, models, financial information or any other information or representations whatsoever provided by EXL US to Client prior to entering into this Agreement are true, complete and accurate in all respects and are not misleading;

11.5 all financial information provided to Client is good and consistent with the financial information used in preparing EXL US's annual audited financial statement; and

11.6 there are no facts or circumstances in relation to the financial position or operation or constitution of EXL US which have not been fully and fairly disclosed to Client in writing and which, if so disclosed, might reasonably have been expected to affect the decision of Client to enter into this Agreement.

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11.7 EXL India warrants and represents to Client that at the Effective Date:

- 11.7.1 EXL India is properly constituted and incorporated under the laws of India and has all necessary authority, power and capacity to enter into this Agreement, the Data Protection Agreement and, during the term of this Agreement, Works Contracts;
- 11.7.2 EXL India has performed sufficient due diligence to fully satisfy itself in respect of the obligations contained in this Agreement, the Data Protection Agreement and any Services which may be entered into pursuant to this Agreement on such date;
- 11.7.3 that any and all materials, documents, drawings, plans, data, models, financial information or any other information or representations whatsoever provided by EXL India to Client prior to entering into this Agreement are true, complete and accurate in all respects and are not misleading; and
- 11.7.4 there are no facts or circumstances in relation to the financial position or operation or constitution of EXL India which have not been fully and fairly disclosed to Client in writing and which, if so disclosed, might reasonably have been expected to affect the decision of Client to enter into this Agreement.

11.8 The Contractor undertakes to Client that at all times during the Contract Period:

- 11.8.1 it will provide the Services in accordance with each Work Contract and the terms of this Agreement;
- 11.8.2 it has satisfied itself in respect of each Work Contract as to the obligations therein, and the scope and requirements of the Services detailed in each such Work Contract;
- 11.8.3 it will comply with the Transition Plan in each Work Contract and achieve all Key Milestones stated in such Transition Plan;
- 11.8.4 it will provide the Services using appropriately qualified, skilled and trained personnel;
- 11.8.5 all Assets are of the requisite quality, adequacy and performance and are appropriate to achieve Client's requirements set out in this Agreement;

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- 11.8.6 all Hardware or Software (other than software of the Client) used by the Contractor in the performance of this Agreement shall be Year 2000 Compliant;
- 11.8.7 any Contractor Software used by the Contractor in the performance of this Agreement will, to the extent to which it is necessary for the performance of the Services, from such date, if any, as the United Kingdom enters into Monetary and Economic Union with the EU:
- 11.8.7.1 allow all financial and monetary information and all calculations resulting therefrom to be converted and rounded from Sterling to Euro and Euro to Sterling in accordance with the rules for conversion and rounding contained in EU Council Regulation 1103/97; and
- 11.8.7.2 be capable of operating in dual currency (and for these purposes “dual currency” means United Kingdom Pounds and the Euro);
- 11.8.8 it shall not knowingly or negligently introduce a software virus, computer worms, software bombs or similar items into the Hardware or Software used by Client or by the Contractor in the provision of the Services and will not knowingly introduce any logic bombs, Trojan horses or time bombs into the Hardware or Software used by Client or by the Contractor in the provision of the Services;
- 11.8.9 all licences provided or procured by the Contractor for the provision of the Services are adequate and appropriate for the provision of the Services in accordance with this Agreement;
- 11.8.10 all Permitted Contractors enter into the standard confidentiality agreement with the Contractor in the form of that contained in **Schedule 1** ;
- 11.8.11 all Staff engaged in the provision of the Services will adhere to equivalent confidentiality obligations as are contained in **clause 36** ; and
- 11.8.12 it shall comply with any applicable provisions of the Foreign Exchange Management Act 1999 (“FEMA”) and FEMA regulations made thereunder and ensure that it has all requisite approvals necessary under FEMA and such FEMA regulations for the operation of this Agreement.



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11.9 The Client warrants and represents that:

- 11.9.1 it is properly constituted and incorporated under the laws of England and Wales and has all necessary authority, power and capacity to enter into this Agreement, the Data Protection Agreement and, during the term of this Agreement, Work Contracts;
- 11.9.2 there are no facts or circumstances in relation to the financial position or constitution of Client which have not been fully and fairly disclosed to the Contractor which, if so disclosed, might reasonably have been expected to affect the decision of the Contractor to enter into this Agreement;
- 11.9.3 all corporate action required by it to authorise the execution and delivery of, and to execute its rights and perform its obligations under this Agreement and all other documents which are to be executed by it as envisaged by this Agreement have been or will be taken;
- 11.9.4 the Contractor will not be required to purchase any licences or obtain any third party consents to allow it to use Client Materials for the purposes of providing the Services pursuant to this Agreement; and
- 11.9.5 Client has obtained any governmental consents and/or authorisations necessary under UK Regulations to allow it to contract out the provision of the Services to the Contractor, and the Contractor will not be required to obtain any separate or further consents and/or authorisation under UK Regulation in order to enable it to provide the Services in the manner contemplated by this Agreement.

12. **KPIS AND SERVICE LEVELS**

- 12.1 The Service Levels set the level of performance of each of the Service Elements that are, as a minimum, required of the Contractor.
- 12.2 Certain of the Service Levels have a related KPI and in respect of any such Service Level the Contractor will provide the Services in accordance with the KPI.
- 12.3 The Contractor shall monitor its performance of the Services in accordance with the procedure set out in **Schedule 3, Annex 5** and **Annex 7** of each Work Contract and within five days of the end of each month the Contractor shall provide a report to Client of its performance of the Services, in particular identifying its performance of the Services when measured against KPIs.
- 12.4 If the Contractor fails to achieve KPIs in a month, then, subject to **clause 12.5**, the default provisions of **Schedule 3** and **Annex 5** and **Annex 7** of each Work Contract shall apply and Client shall be entitled to claim under the remedies contained in **Schedule 3** and **Annex 5** and **Annex 7** of each Work Contract.

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- 12.6 If the Contractor fails to achieve a KPI and such failure is caused by a Dependency not being fulfilled, then to the extent that the failure is caused by the Dependency not being fulfilled the Contractor shall be relieved from any liability in respect of the non-compliance.
- 12.7 Client may elect to undertake its own performance monitoring exercise at any stage during the term of this Agreement for any purpose including in order to ensure that the Services are being provided in accordance with this Agreement.
- 12.8 Client's rights under this **clause 12** shall be without prejudice to any other right or remedy which Client may have with regard to any failure to provide the Services to the levels required by the Service Levels and KPIs.

### 13. **CO-OPERATION WITH THIRD PARTIES**

- 13.1 The Contractor shall co-operate with any sub-contractor of Client which Client notifies to the Contractor from time to time specifying the areas in which cooperation is necessary and the necessary actions, if any, which the Contractor is requested to undertake. The Contractor may request that the matter be subject to the Change Control Procedure which shall, if applicable, determine what Charge may be made for such co-operation. If Client requires the Contractor to work with a Contractor Competitor, Client shall procure that the Contractor will not be required to disclose its Intellectual Property Rights or any of its Confidential Information to such Contractor Competitor, and that such representatives from such Contractor Competitor cannot, without the Contractor's prior written consent, enter the Premises or give instructions to Staff.
- 13.2 Notwithstanding **clause 13.1** Client confirms that it is solely responsible for managing and directing its sub-contractors and that the Contractor has no obligation to manage or direct Client's sub-contractors.

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#### 14. CHANGE CONTROL

- 14.1 Either of Client or the Contractor may serve a Change Notice relating to an Inscope Change requiring it (or, if served by the Contractor, requesting) the other of them to make an Inscope Change to the Services or the Transition Plan in accordance with the Change Control Procedure.
- 14.2 Either of Client or the Contractor may serve a Change Notice relating to an Outscope Change upon the other of them requesting changes to the Services or the Transition Plan in accordance with the Change Control Procedure.
- 14.3 Client may serve a notice (a “ **Regulatory Change Notice** ”) upon the Contractor requesting the Contractor to make a change to the Services or the Transition Plan within the timescale specified by Client where there is a change in UK Regulations or a direction by a Regulatory Authority with regard to UK Regulations after the Effective Date.
- 14.4 Where Client serves a Regulatory Change Notice, the Contractor shall make and implement such change within the timescale specified in the Regulatory Change Notice. If reasonably practicable the parties shall determine any necessary variation to the Charges or other terms of this Agreement in accordance with the Change Control Procedure prior to implementation of the change(s) required by the Regulatory Change Notice, but if this is not reasonably practicable then Client will pay the Contractor all costs and expenses properly and necessarily incurred. Such costs shall be calculated on the Contractor’s standard man day rates as set out in **Schedule 7** (the “ **Regulatory Costs** ”), provided that if the capital cost to the Contractor of complying with the Regulatory Change Notice in terms of capital expenditure will exceed \*\*\*, then the Contractor shall not be required to incur the expenditure required to comply with the Regulatory Control Notice unless and until Client agrees in writing to purchase (such purchase to be arranged and managed by the Contractor) such assets to allow the Contractor to utilise the same to provide the Services. The parties will subsequently use the Change Control Procedure with retrospective effect after implementation of the change(s) required by the Regulatory Change Notice to determine any necessary change to the Charges. To the extent that capital expenditure is required but does not exceed \*\*\* then, unless Client elects to purchase these assets in the manner set out above, the cost of the Contractor funding this prior to the Charges being adjusted to reflect this change will be included as a specific addition as part of the Change Control Procedure, along with any changes to ongoing costs.

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14.5 Any changes to Regulations other than changes to or incurrence of UK Regulations shall be at the risk and cost of the Contractor. Without limitation to this the Contractor may serve a Change Notice where these changes require it to provide Services in a different manner operationally to address the operational impact of the changes.

15. **REGULATORY COMPLIANCE**

- 15.1 Subject to **clause 14** the Contractor shall carry out the Services in compliance with and shall ensure that all premises, equipment, systems and processes used in the provision of the Services (other than the Client Materials and all of Client's equipment and systems) comply (to the extent applicable) with all Regulations in force from time to time.
- 15.2 Without prejudice to **clause 15.1** the Contractor shall comply with all directions given to it by Client where these are necessary to comply with UK Regulations. The Contractor shall not be in breach of **clause 15.1** if it fully and effectively complies with directions given by Client as to how to comply with a specific UK Regulation and compliance with such directions is not sufficient to comply with such UK Regulation.
- 15.3 If Client directs the Contractor in writing as to a particular methodology or instruction and as a result of the Contractor not complying with Client's directions Client falls into breach of UK Regulations then:
- 15.3.1 the Contractor shall at its own cost immediately undertake such measures as Client shall require and which are necessary to establish compliance with the UK Regulations;
- 15.3.2 the Contractor shall indemnify Client against any losses, costs, expenses or fines that Client shall incur as a consequence of the Contractor's non-compliance with Client's directions; and/or
- 15.3.3 if the consequence of the Contractor's breach is material Client may terminate this Agreement, either in respect of part or all of the Service, in accordance with **clause 32.2.1** .
- 15.4 If the Contractor incurs any additional cost as a result of changes to or incurrence of Regulations following the Effective Date, or as a result of Client's directions pursuant to **clause 15.2** given after the Effective Date, then the matter shall be addressed in the manner set out in **clauses 14.4** and **14.5** .

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16. **CONTRACT MANAGEMENT/KEY STAFF**

- 16.1 Each of Client and the Contractor shall employ throughout the term of this Agreement and during the Contract Period of each Work Contract an Authorised Representative (or Authorised Representatives), whose identity will be notified in writing from time to time to the other of them.
- 16.2 The Authorised Representatives shall have the full authority to act on behalf of the party which it represents for the purposes of this Agreement or such other additional purposes as are notified in writing from time to time by Client or the Contractor, as appropriate, to the other in respect of its Authorised Representative.
- 16.3 Each of Client and the Contractor shall be entitled to treat any act of the other's Authorised Representatives in connection with this Agreement as being expressly authorised by the party or parties which such Authorised Representative represents (save where the Agreement expressly provides or the parties have previously agreed in writing otherwise).
- 16.4 The Contractor's Authorised Representatives shall have day to day responsibility for the implementation of each Transition Plan and the Services and shall attend any meetings relating to this Agreement that are reasonably requested by Client's Authorised Representative.
- 16.5 In addition to the Authorised Representatives, the parties shall respectively both provide the identity and contact details of the individuals specified in **Schedule 6** and ensure that they fulfil the functions specified in **Schedule 6** .
- 16.6 If any member of the Key Staff leaves the employment of the Contractor, the Contractor shall:
- 16.6.1 inform Client of the departure as soon as it becomes irrevocable or the member of Key Staff has given notice to terminate his employment contract; and
- 16.6.2 confirm the name, qualifications and experience of any replacement to Client.

It is agreed that the Contractor shall replace each departing member of the Key Staff with an individual of at least equivalent experience and expertise in delivery of projects or services similar to the Transition Plan, Implementation Services or Services (as applicable) and with equivalent levels of authority as the member of Key Staff being replaced. If Client does not agree (acting reasonably) that the Contractor

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has replaced a departing member of the Key Staff with an individual of at least relevant experience and expertise, Client may notify the Contractor in writing of this concern requiring an explanation and the Contractor's proposals to remedy the situation.

16.7 Client may at any time require the Contractor to notify Client in writing within ten days of:

16.7.1 the numbers and grades of Staff and Key Staff engaged in the provision of each Service Element;

16.7.2 the technical solution employed to deliver each Service Element; and

16.7.3 any software and hardware employed to deliver each Service Element.

Client shall use its reasonable discretion to render all information provided to it pursuant to this **clause 16.7** generic and not identify the Contractor's precise staffing levels, technical solution and systems. Provided that it complies with this **clause 16.7**, Client shall be permitted to use this information in any retendering exercise and may release such information to third party providers, subject to the third party providers agreeing confidentiality obligations equivalent to those in this Agreement.

16.8 The Contractor shall not redeploy any of the Key Staff to another of its clients/customers without the prior written consent of Client. The Contractor shall not use any of the Hardware or Software for the provision of services to a third party (save where the Hardware and Software is identified in this Agreement or a Work Contract as being Hardware or Software shared with third parties).

16.9 Client reserves the right by notice in writing to the Contractor to require removal from the Services of any individual used by the Contractor in the provision of the Services, provided that a prior reasonable justification has been provided to the Contractor confirming that this action is appropriate. Following the issue of any such notice the Contractor shall promptly withdraw such individual from provision of the Services and ensure that any Confidential Information held by such individual is returned to the Contractor or Client (as appropriate).

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**17. MANAGEMENT AND SUPERVISION**

17.1 The Contractor shall manage the Services in accordance with the requirements of this Agreement and in particular with **Schedule 6** .

17.2 The Contractor shall ensure that all of the Staff are fully supervised at all times and fully comply in all respects with any agreed procedures, all relevant Regulations and conduct themselves in a manner appropriate to the Services.

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- 17.3 The Contractor shall have, or shall work towards obtaining by a date no later than the earliest Service Commencement Date arising pursuant to any Work Contract entered into, a quality management framework covering such points as:
- 17.3.1 Service performance;
  - 17.3.2 KPI and Service Level measures;
  - 17.3.3 feedback and coaching for Staff;
  - 17.3.4 process improvements; and
  - 17.3.5 customer satisfaction measurement.
- 17.4 The Contractor shall implement those cultural and house-style policies which are referred to in **Schedule 5** , and contained in the Agreed Documents together with any other policies of which Client notifies the Contractor. If the Contractor reasonably believes that such policies of Client conflict with the Contractor's own policies, then it shall notify Client and the parties shall agree a mutually satisfactory solution to the conflict (and in the absence of agreement, either party may refer the matter to be resolved pursuant to the Dispute Resolution Procedure). If any policy of which Client notifies the Contractor following the Effective Date (or in relation to an individual Work Contract, the relevant Contract Term Start Date) causes an increase or looks likely to cause an increase in the Contractor's costs which the Contractor (acting reasonably) believes to be an Outscope Change, the Contractor may refer such matter to the Change Control Procedure.
18. **MONITORING/AUDIT/ACCESS RIGHTS**
- 18.1 The Contractor shall provide audit and access rights (collectively the “ **Inspection Rights** ”; for the avoidance of doubt, the rights granted pursuant to **clauses 7.4** and **7.5** shall also be deemed to be included in the Inspection Rights), on the following basis (where reference is made to an exercise of the Inspection Rights, that is a reference to an exercise of such rights in a complete or partial manner):
- 18.1.1 Client and/or any Client appointed auditor shall be permitted access to any and all documentation in the possession, custody or control of the Contractor which relates to the Services and the Contractor shall procure that any person acting on its behalf (including any Permitted Contractor) who has such documents and/or other information shall also provide such access;



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18.1.2 the Inspection Rights include the power to interview Staff, Permitted Contractors, staff of Permitted Contractors (provided that a representative of the Contractor may be present during any such interview), take copies of any and all documentation and have access to and take copies of any computer data held for the purposes of the Services at all reasonable times and upon reasonable notice;

18.1.3 each of the parties will be responsible for all of its own costs arising from its exercise of the Inspection Rights; and

18.1.4 to the extent and for the period that the Inspection Rights cause any unavoidable disruption to the Services or the Contractor's obligations under this Agreement, the Contractor will not be liable for the consequences arising from such disruption.

The Inspection Rights shall also extend to establishing and verifying compliance with the Data Protection Agreement, the Contractor Covenants, the information security requirements set out at **Schedule 1 8** and the organisational structure set out at **Schedule 5** .

18.2 If requested by Client, the Contractor shall provide copies of any documents and reports which the Contractor holds in relation to the provision of the Services and the operation of this Agreement and the Work Contracts made under it.

18.3 Client agrees that where it, or its appointed auditors, exercises its rights to inspect and/or audit all or any part of the Services under this Agreement, it will use reasonable endeavours to minimise any disruption caused to the provision of the Services and the Contractor's compliance with its obligations.

18.4 The Contractor shall grant to Client (and its employees and authorised agents) access to the Premises together with any other site(s) at which the Contractor holds records relating to the Services at all times without prior notice in order to enable Client to monitor and validate the Contractor's performance of the Services and of its obligations under this Work Contract.

18.5 Client or its agent shall be permitted open book access (at any time and with no notice requirements) to all records (including financial records) maintained pursuant to this Agreement and each Work Contract during the term of this Agreement and the Contract Period of each Work Contract (as applicable) and for a further period of 90 days following the date of termination of this Agreement or Work Contract (as applicable).

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- 18.6 Client shall procure that any of its personnel and authorised agents visiting the Premises shall conform to the reasonable rules laid down by the Contractor from time to time for visitors to its premises.
- 18.7 Client agrees that:
- 18.7.1 where it requires a third party provider to access the Contractor's premises; or
- 18.7.2 Client provides a third party provider access to the Contractor's data,
- it shall prior to such third party having access to the premises or to the data, procure that such third party executes a confidentiality agreement with Client providing that such third party owes duties of confidentiality to both Client and the Contractor which are at least equivalent to the confidentiality obligations contained in this Agreement and shall contain a prohibition on disclosure of such data.
- 18.8 Save where agreed to the contrary by Client in writing, the Contractor shall provide certificates confirming compliance with the standards detailed in this **clause 18.8** on an annual basis, such certification to be provided during the month preceding each anniversary of the Effective Date. The certification areas subject to this **clause 18.8** are:
- 18.8.1 COPC (business process outsourcing);
- 18.8.2 BS 7799; and
- 18.8.3 ISO 9001.
19. **PRICING**
- 19.1 Subject to the other terms of this Agreement, throughout each Contract Period, Client shall pay to the Contractor the Charges specified in each Work Contract, based upon the Pricing Model specified in **Schedule 7**.
- 19.2 Unless otherwise expressly agreed by the parties in writing or set out in this Agreement, the Charges due under this **clause 19** shall constitute Client's entire payment obligations for the Services to the Contractor under this Agreement.

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20. **THIRD PARTY SERVICES**

For the avoidance of doubt, save as specifically set out in this Agreement, the Contractor is not precluded from providing services to or doing business with any Client Competitor.

21. **PAYMENT**

- 21.1 The Contractor shall issue an invoice to Client for the Services on the basis set out in **Schedule 7, Annex 6** of each Work Contract and this **clause 21**. Each invoice shall be sent by the Contractor to such address as Client shall notify to the Contractor from time to time.
- 21.2 Each invoice submitted to Client for payment must contain the following information:
- 21.2.1 the Work Contract(s) to which the invoice relates (the Charges to be broken down to a per Service Element basis and including or accompanied by such reporting as is sufficient for Client to reconcile the invoiced volumes and values);
  - 21.2.2 the period to which the Charges relate;
  - 21.2.3 any Service Credits which have been set against the Charges in accordance with **Annex 5** of each Work Contract; and
  - 21.2.4 any Liquidated Damages which have been set against the Charges in accordance with **Annex 1** of each Work Contract.
- 21.3 Subject to **clause 21.5**, Client shall pay in United Kingdom Pounds Sterling (or, if replaced by the Euro, in Euro (after applying the conversion mechanism determined by United Kingdom statute, regulation or direction)) by bank transfer to such United Kingdom bank account as the Contractor may notify to Client in writing from time to time all invoices delivered to it in accordance with this **clause 21** on or prior to the date which is 30 days following the date upon which Client receives the invoice.
- 21.4 If any sums are due to Client from the Contractor, as agreed by Client and the Contractor or as determined pursuant to the Dispute Resolution Procedure, Client shall, following prior written notice to the Contractor specifying the sums owing from the Contractor to Client and the invoice against which such sums will be set off, be entitled to set these off against such invoices.

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- 21.5 If Client disagrees with any amount invoiced for any genuine reason or requires any further reasonable information with respect to any amount invoiced, it shall notify the Contractor of the reason(s) for such disagreement or request such further information within 30 days of receiving the invoice; pending the resolution of such dispute Client shall be entitled to withhold payment of such part of the monies which are in dispute or subject to further investigation in accordance with this clause. If no notification of a dispute is received pursuant to this **clause 21.5** in relation to an invoice, then such invoice shall be paid in accordance with **clause 21.3** .
- 21.6 If the Contractor disputes that Client is entitled to any reduction in the invoiced amount or the amount of any such reduction, then it may implement the Dispute Resolution Procedure. In the event that it is resolved pursuant to the Dispute Resolution Procedure that there was an overcharge, then the Contractor shall reimburse Client for the amount overcharged if such amount has been previously paid to Contractor.
- 21.7 Client and the Contractor shall pay the other of them any amounts which are agreed or determined, pursuant to the Dispute Resolution Procedure, as being due to the other of them, within the later of the original payment date for the invoice and seven days following determination of the sum due.
- 21.8 Payment by Client shall be without prejudice to any claims or rights which Client may have against the Contractor and shall not constitute any admission by Client as to the performance by the Contractor of its obligations under this Agreement.
- 21.9 All amounts payable pursuant to this Work Contract are expressed exclusive of VAT properly chargeable in accordance with UK Regulations. If required by UK Regulations, Client shall pay any VAT at the rate for the time being properly chargeable in respect of the Services, subject to the Contractor providing Client with such valid tax invoices or other documentation as may be required by any relevant statute or regulation. The Contractor shall be responsible for all taxes and duties imposed upon the Charges other than those imposed pursuant to UK Regulations.
- 21.10 If any sum payable under this Agreement is not paid when due then, without prejudice to that party's other rights and remedies under this Agreement, that sum will bear interest from the due date until payment is made in full, both before and after any judgment, at 2% per annum over the Bank of England base rate from time to time. The parties agree that this **clause 21.10** is a substantial remedy for late payment of any sum payable under this Agreement in accordance with clause 8(2) of the Late Payment of Commercial Debts (Interest) Act 1998.

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23. **INTELLECTUAL PROPERTY RIGHTS**

- 23.1 The Contractor acknowledges and agrees that all Intellectual Property Rights in the Project Materials shall belong exclusively and in their entirety to Client.
- 23.2 The Contractor agrees on request to assign or procure the assignment to Client of all Intellectual Property Rights in the Project Materials. The Contractor shall do all such things and execute all documents and instruments requested by Client which are necessary to enable Client to obtain, defend or otherwise protect or enforce its Intellectual Property Rights in the Project Materials.
- 23.3 Subject to **clause 23.4** the parties hereby agree that all Intellectual Property Rights: (i) created by or on behalf of the Contractor prior to the Effective Date in respect of the Contractor Software to be used primarily for the purposes of performing the Services pursuant to this Agreement; and/or (ii) created after the Effective Date by or on behalf of the Contractor to be used primarily for the purposes of performing the Services pursuant to this Agreement that are not Project Materials and/or Client Materials (and do not contain or incorporate any aspect of the Client Software) (together “ **Contractor IPR** ”) shall belong to the Contractor. During the term of this Agreement:
- 23.3.1 The Contractor may not use Contractor IPR to provide services to a Client Competitor unless such Contractor IPR has been generically changed to be no longer designed for specific use with an energy or utilities company.
- 23.3.2 The Contractor grants an unrestricted, irrevocable royalty free licence for the duration of this Agreement for Client to use the Contractor IPR, including the right to sub-license such Contractor IPR to Affiliates (while they remain Affiliates) and third party contractors in connection with the Services (but, for the avoidance of doubt, not to Contractor Competitors).

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- 23.3.3 If the Contractor believes that it should own or wishes to use for any persons or entity other than Client any Client Materials and/or Project Materials, it may apply in writing to Client for specific permission to own or use such development.
- 23.4 In relation to any Contractor IPR (i) the development of which is specifically paid for by Client, or (ii) which is embedded in the Project Materials and/or Client Materials as part of the process of actually providing the Services (but not monitoring the provision of the Services (“ **Developed IPR** ”)), the Contractor grants an unrestricted, irrevocable royalty free and perpetual licence for Client to use such Contractor IPR, including the right to sub-license such Contractor IPR to Affiliates and third parties, provided that this licence shall only cover the specific Developed IPR itself and nothing in this **clause 23.4** shall be taken as granting Client a licence to or right to use any other Intellectual Property Rights or software of the Contractor, whether or not Contractor IPR, including for the avoidance of doubt the PROMPT package or any other software in which Contractor IPR or Developed IPR may be embedded.
- 23.5 Upon request by Client, and in any event upon termination of this Agreement (howsoever occasioned), the Contractor shall promptly deliver to Client all copies of the Project Materials in its custody, control or possession.
- 23.6 The parties hereby agree that all Intellectual Property Rights arising during the continuance of this Agreement in respect of alterations, modifications and enhancements of Client Software (being software which is owned by or licensed to Client other than by the Contractor) made by the Contractor or procured by the Contractor specifically in connection with or to deliver the Services shall belong to Client and the Contractor undertakes as necessary to assign or procure the assignment of all such Intellectual Property Rights to Client, at Client’s expense. For the avoidance of doubt, save as may be agreed pursuant to **clause 23.3.3**, the Contractor shall not have the right to use Client Software for the benefit of any company not part of the Client Group.
- 23.7 Client shall, subject as stated in **clause 23.8**, indemnify and hold harmless the Contractor against all damages (including legal costs) that may be awarded or agreed to be paid to any third party in respect of any claim or action that the use of Client Software and/or the Client Materials by the Contractor or its subcontractors pursuant to this Agreement infringes any Intellectual Property Rights of a third party. Client shall provide such assistance and take such action as the Contractor shall reasonably require to protect the Contractor’s interest in such eventuality.

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- 23.8 If the Contractor becomes aware of a matter which may give rise to a claim under the indemnity given at **clause 23.7** :
- 23.8.1 the Contractor shall notify Client immediately of the matter (stating in reasonable detail the nature of the matter and, if practicable, the amount claimed) and consult with Client with respect to the matter; if the matter has become the subject of proceedings, the Contractor shall notify Client as soon as practicable to enable Client jointly to contest the proceedings;
  - 23.8.2 the Contractor shall provide to Client and its advisers access to premises and personnel and to all relevant assets, documents and records that it possesses or controls to the extent necessary for the purposes of investigating the matter and enabling Client to take the action referred to in this clause and Client may take copies of the documents and records solely for this purpose;
  - 23.8.3 the Contractor shall take any action and institute any proceedings, and give any information and assistance that Client may reasonably request to dispute, resist, appeal, compromise, defend, remedy or mitigate the matter or enforce against a person the Contractor's rights in relation to the matter. In connection with proceedings related to the matter (other than against Client) the Contractor shall use reputable advisers chosen by Client and, if Client requests, allow Client the exclusive conduct of the proceedings; and
  - 23.8.4 the Contractor may not admit liability in respect of or settle the matter without first obtaining Client's written consent, such consent not to be unreasonably withheld or delayed.
- 23.9 The Contractor shall, subject as stated in **clause 23.10** , indemnify and hold harmless Client against all damages (including legal costs) that may be awarded or agreed to be paid to any third party in respect of any claim or action that the use of the Contractor Software by Client pursuant to this Agreement infringes any Intellectual Property Right of any third party. The Contractor shall provide such assistance and take such action as Client shall reasonably require to protect Client's interest in such eventuality.
- 23.10 If Client becomes aware of a matter which may give rise to a claim under the indemnity given at **clause 23.9** :
- 23.10.1 Client shall notify the Contractor immediately of the matter (stating in reasonable detail the nature of the matter and, if practicable, the amount claimed) and consult with the Contractor with respect to the matter; if the matter has become the subject of proceedings, Client shall notify the Contractor as soon as practicable to enable the Contractor jointly to contest the proceedings;

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- 23.10.2 Client shall provide to the Contractor and its advisers access to premises and personnel and to all relevant assets, documents and records that it possesses or controls to the extent necessary for the purposes of investigating the matter and enabling the Contractor to take the action referred to in this clause and the Contractor may take copies of the documents and records solely for this purpose;
- 23.10.3 Client shall take any action and institute any proceedings, and give any information and assistance that the Contractor may reasonably request to dispute, resist, appeal, compromise, defend, remedy or mitigate the matter or enforce against a person Client's rights in relation to the matter. In connection with proceedings related to the matter (other than against the Contractor) Client shall use reputable advisers chosen by the Contractor and, if the Contractor requests, allow the Contractor the exclusive conduct of the proceedings; and
- 23.10.4 Client may not admit liability in respect of or settle the matter without first obtaining the Contractor's written consent, such consent not to be unreasonably withheld nor delayed.
- 23.11 Notwithstanding any provision to the contrary, the Contractor shall retain the Intellectual Property Rights in any materials:
- 23.11.1 which it created prior to the Effective Date; or
- 23.11.2 which it has not created for Client or for the purposes of a Work Contract.
- 23.12 For the avoidance of doubt, the provisions of this **clause 23** shall survive the expiration or termination of this Agreement howsoever occasioned.
- 23.13 Client may request in writing the Contractor from time to time to procure a licence to use software for use in the Services specifically containing a right to assign such software to Client upon termination of the Agreement and the Contractor shall use its best endeavours to achieve the same at Client's cost.



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23.14 With effect from the date that the Contractor is appointed under a Work Contract to supply “Substantial Services” (as defined below) to Client the Contractor shall grant a non-exclusive, royalty-free, non transferable or sub-licensable (save to members of the Client Group) licence in the United Kingdom to use ProMPT for the term of the Work Contract to enable Client, its employees and employees of Client Group to conduct services of the same or substantially the same kind as the Services being the subject of the relevant Work Contract in the United Kingdom in parallel with the Services provided that Client shall comply with any reasonable and necessary requests of the Contractor in connection with such use and licence. The licence shall be royalty free save that Client shall be responsible for the following costs and expenses:

23.14.1 Client purchasing any necessary servers for ProMPT to run on;

23.14.2 the Contractor providing any training required by Client in the UK (as opposed to India) in the use and operation of ProMPT;

23.14.3 any data transition costs incurred by the Contractor with Client’s agreement;

23.14.4 the Contractor providing such maintenance for ProMPT as Client shall require; and

23.14.5 properly and necessarily incurred “out of pocket” expenses specifically relating to Client as agreed by Client (such agreement not to be unreasonably withheld).

For the purposes of this clause, “Substantial Services” are those Services provided under a Work Contract which contribute at least 50% of Client’s requirements for services the same or substantially the same as the relevant Services and shall include Services which are specifically planned to reach this 50% level under the terms of the relevant Work Contract. For the avoidance of doubt if Client cannot pass 50% or more of its requirements for the relevant Services to the Contractor due to and to the extent that some default or failure on the part of the Contractor the Services shall be deemed to be Substantial Services even though the Contractor’s share of the same or substantially similar services required by Client falls below 50% due to such default or failure. The Contractor shall have the right to terminate this licence should Client not comply with the terms of this **clause 23.14** .

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## 24. DOCUMENTATION/RECORDS

- 24.1 The Contractor shall maintain the documentation and records required in accordance with and to the standards set out in each Work Contract.
- 24.2 Copies of the documentation listed in each Work Contract shall be provided to Client (in electronic format where practicable) in accordance with the procedures set out in each Work Contract.
- 24.3 The Contractor will develop and maintain all operational documentation necessary for provision of the Services, including the Project Materials.

## 25. INSURANCE

- 25.1 The Contractor shall maintain throughout the continuance of this Agreement insurance policies with reputable insurers covering the risks and amounts set out in **clause 25.7** . Such insurance policies (with the exception of those for automobile, property, crime and foreign liability, as set out below) shall contain a waiver of subrogation rights in favour of Client, save that the Contractor shall not be obliged to obtain a waiver of subrogation in respect of professional liability and crime policies. The Contractor shall bear any and all excesses, deductibles or franchises incorporated therein . The Contractor warrants that to the best of its knowledge, information and belief the insurance policies for automobile, property, crime and foreign liability cannot be provided by insurers with a waiver of subrogation rights.
- 25.2 The Contractor shall, if requested in writing at any time by Client, provide Client with evidence from its insurance brokers that the required coverage has been implemented and is in place. Such evidence shall be provided within 21 days of such request.
- 25.3 The Contractor shall give written notice to Client as soon as reasonably practicable and without undue delay in the event of cancellation or any change in the said policies which may affect Client's interest.
- 25.4 Nothing in this **clause 25** shall limit or relieve the Contractor or Client of their respective liabilities and obligations under this Agreement generally.
- 25.5 If the Contractor is in breach of **clause 25.1**, Client may pay any premiums required to keep such insurance in force or itself procure such insurance, and may in either case recover such reasonable amounts from the Contractor together with reasonable administration fees incurred forthwith upon written demand. Client may set off any such sums against sums payable to the Contractor at any time under this Agreement. Any action or inaction by Client under this clause shall not affect the liability of the Contractor pursuant to this Agreement.

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25.6 The Contractor shall procure that the Client is named as an express or nominated beneficiary under those policies of insurance highlighted with \* in the table in **clause 25.7** .

25.7 The insurance policies referred to in **clause 25.1** shall cover the following risks with the following minimum limits:

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26. **INDEMNITIES AND LIMITATIONS UPON LIABILITY**

26.1 Subject to the limitations of liability contained in this **clause 26** the Contractor shall indemnify and keep indemnified Client against any direct losses, damage, fines, costs and expenses (including third party and customer claims) which arise from the Contractor's breach of this Agreement (including the Warranties) or from any Work

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Contract, or from the negligence of the Contractor, its employees, agents or subcontractors (whether or not Permitted Contractors). The Contractor acknowledges that such losses shall include:

- 26.1.1 the costs and expenses of migrating all or part of the Services back to Client or a third party;
- 26.1.2 the costs of all reasonable external consultancy, internal or external management, personnel and computer time, acceptance testing together with all reasonable costs associated therewith in any case necessarily and directly incurred to remedy the default;
- 26.1.3 any loss of revenue directly caused by the Contractor's default or breach of this Agreement or any Work Contract;
- 26.1.4 express savings set out in a Work Contract which the Contractor has agreed that Client would otherwise have made as a result of the provision of the Services in accordance with this Agreement or any Work Contract and which will not be realised due to the early termination of this Agreement or the Work Contract;
- 26.1.5 payments made by Client to a third party pursuant to Client's commitment to such third party (whether contractual or in accordance with Client's published compensation policy guidelines) and arising as a result of such breach or neglect by the Contractor;
- 26.1.6 any costs incurred as a result of Client implementing its rights contained in **clause 30**;
- 26.1.7 any fines imposed by, any Regulatory Authority in connection with any breach by Client of its regulatory requirements resulting from such act or omission by the Contractor; and
- 26.1.8 any costs incurred by Client as a result of the Contractor using Intellectual Property of Client for purposes not specified by Client (where this causes Client to be in breach of obligations to third parties in respect of such Intellectual Property),

provided that Client uses its best endeavours to mitigate any such losses. References above to "Client" shall include any member of the Client Group.

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**Maximum Liability**

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**General**

26.5 Except for those provisions expressly stated in this Agreement, all warranties, conditions, terms, representations, statements, undertakings and obligations whether express or implied by statute, common law, custom, usage or otherwise are all hereby excluded to the fullest extent permitted by law.

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- 26.6 Nothing in this Agreement shall exclude or limit either Client's or the Contractor's liability for:
- 26.6.1 death or personal injury caused by the negligence of Client or the Contractor, as appropriate;
  - 26.6.2 any matter which it would be illegal for Client or the Contractor, as appropriate, to limit and/or exclude or to attempt to limit and/or exclude its liability for; and/or
  - 26.6.3 fraud.
- 26.7 The rights and remedies of each party given in this Agreement are cumulative and not exclusive of any rights or remedies granted by law save as otherwise expressly stated in this Agreement.
- 26.8 For the avoidance of doubt, the Contractor's liability for a breach of this Agreement shall be reduced if and to the extent that a breach of this Agreement by the Contractor arises directly from a breach by Client of this Agreement, or a negligent act or omission by Client pursuant to this Agreement. However, the Contractor may not use this **clause 26.8** to avoid liability where the Contractor could reasonably have avoided its breach of this Agreement notwithstanding Client's breach or negligent act or omission.
27. **DISASTER RECOVERY**
- 27.1 The Contractor shall with effect from the first Service Commencement Date arising pursuant to this Agreement at all times comply with and maintain the agreed BCP. Prior to this the Contractor will develop a first version of the BCP as part of the Transition Plan.
- 27.2 The parties shall, to the reasonable satisfaction and under the direction of Client, in addition to the requirements of **Schedule 8**, test the BCP at least once in each Contract Year to ensure that such plans remain adequate in accordance with the processes set out in **Schedule 8**.
28. **SUSPENSION OF SERVICES**
- 28.1 In the circumstances set out in **clause 28.2** Client may at any time during the term of this Agreement serve a notice upon the Contractor using the pro-forma shown in **Schedule 11** (a "**Suspension Notice**") stating:
- 28.1.1 that it is Client's intention to suspend the Services, or certain Service Elements;

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- 28.1.2 the reason for such suspension;
  - 28.1.3 the date it wishes to commence such action; and
  - 28.1.4 an indication of the time period which at that time it believes will be necessary for such suspension (this time frame shall not be binding upon Client).
- 28.2 Client may serve a Suspension Notice in the following circumstances:
- 28.2.1 Client is in breach of Regulations, or reasonably believes it is likely to be in breach of Regulations, as a consequence of the continuance of it receiving Services or the relevant Service Element;
  - 28.2.2 Client reasonably believes that there is a risk to the functioning of Client, or a risk to the confidentiality or probity of the information or data held, processed or utilised by Client for the performance of the Services; and/or
  - 28.2.3 the Contractor has failed to remedy a matter which is the subject of a Defects Notice and **clause 7.9** applies;
  - 28.2.4 Client has a right to terminate a Work Contract, or this Agreement, as a consequence of the Contractor's material breach; and/or
  - 28.2.5 Client wishes to suspend some or all of the Services in its sole discretion.
- 28.3 If Client serves a Suspension Notice, the Contractor will from the date specified in the Suspension Notice suspend the Services or the relevant Service Element(s). In the event that the Services or a relevant Service Element(s) are suspended, then from the time such suspension takes effect, the Contractor shall take no action in respect of such suspended Services or Service Elements save as reasonably directed or required by Client. Client agrees that it will minimise the scope of the suspension with regard to the Services to the maximum extent it reasonably can.
- 28.4 Client may cease at any time to require a Service or Service Element to be suspended and must do so where the reason in **clause 28.1.2** has ceased, to its reasonable satisfaction, to be operational. The Contractor shall resume such Services or Service Elements as soon as reasonably practicable following such notice from Client and in any event no longer than five Business Days following such notice.



- 28.5 If and to the extent that the cause of the suspension does not arise from a breach by the Contractor of any of its obligations under this Agreement (and always where the cause of suspension is pursuant to **clause 28.2.5** ), in respect of the period during which Client requires the Services or relevant Service Elements to be suspended, Client shall, subject to **clause 28.6** , continue to pay all Charges that would otherwise fall due, provided that if and to the extent that the cause of the suspension arises from a breach by the Contractor of its obligations under this Agreement, during the period of suspension Client shall have no obligation to pay the Charges to the Contractor in respect of the suspended Services or Service Element(s).
- 28.6 The Contractor shall, in relation to this **clause 28** , seek to mitigate its costs to the extent reasonably possible and to the extent it is able to do so shall reduce the Charges for that period and in respect of those Services which are suspended by the amount of its saving. If the suspension occurs during an Implementation Period, the Contractor shall not incur any further unavoidable expenses with respect to the relevant Implementation Services without the prior written consent of Client.
- 28.7 The rights of each party under this **clause 28** are without prejudice to any of its other rights whether under this Agreement or at law. The parties agree that the correct exercise by Client of its suspension rights does not create any liability for Client other than as expressly provided for in this Agreement in respect of such suspension.
- 28.8 If the cause of suspension arises from **clause 28.2.5** , Client may require the Contractor to reduce staffing levels, Assets and other factors which incur cost, in order to mitigate the cost to Client of the suspension but Client shall be responsible for any unavoidable costs incurred as a consequence, subject to Contractor advising Client of the amount of such unavoidable costs in advance, to the extent that it is reasonably possible to determine or estimate such costs in advance.
- 28.9 In addition to its rights under **clause 28.1** Client shall have the right at its discretion, whereupon it must serve written notice on the Contractor, to delay all or specific elements of Implementation Services so as to extend the Implementation Period. If Client shall exercise its right in this regard the provisions of **clauses 28.5** and **28.6** and, where appropriate, **clause 28.10** , shall apply in relation to the Implementation Charges.
- 28.10
- 28.10.1 If Client exercises its right to defer the Implementation Services and/or the Services the following provisions of this clause shall operate in relation to the costs relating to the Premises being made available to provide the Implementation Services and Services.

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28.10.2 At any time up to \*\*\* Client may give written notice to the Contractor that it does not want the Contractor to keep such Premises available in which case the following provisions shall apply:

28.10.2.1 If such notice is given on or before \*\*\* then Client shall bear \*\*\* from \*\*\* in relation to such Premises;

28.10.2.2 If such notice is given after \*\*\* then Client shall pay to the Contractor a sum equal to \*\*\* for each week (or part week if the notice is served other than on a 7 day anniversary of \*\*\*) that has passed after \*\*\* up to the date of service of such notice subject to a maximum payment of \*\*\*; and

28.10.2.3 If Client gives notice under **clause 28.10.2** then it shall give the Contractor at least \*\*\* written notice that it requires the Contractor to provide new Premises to provide the Services and the Implementation Services for which the Premises are required. The Contractor shall only be obliged to provide the new Premises for the Services, and for the Implementation Services for which the Premises are required, from the expiry date of such notice (or such earlier date as the parties agree). Notwithstanding that the Premises may not be available for an agreed period, to the extent that performance of the Implementation Services is not dependant upon the Premises then the Contractor shall continue to perform those Implementation Services.

28.10.3 If Client wishes to defer the Implementation Services and/or Services but keep such Premises available from \*\*\* then it can require this of the Contractor by giving written notice to this effect on or before \*\*\* in which case Client shall pay the following sums to the Contractor for the period during which it defers the Implementation Services and/or Services:

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29. **FORCE MAJEURE**

- 29.1 Subject to **clauses 29.2** and **29.3** , if either Client or the Contractor (the “ **Affected party** ” with the other of them being the “ **Other party** ” in this **clause 29** ) is prevented, hindered or delayed from or in performing any of its obligations under this Agreement by Force Majeure, then:
- 29.1.1 the Affected party’s specific obligations under this Agreement which are prevented, hindered or delayed by Force Majeure shall be suspended for so long as the Force Majeure continues (the “ **Force Majeure Period** ”) and only to the extent that the Affected party is so prevented, hindered or delayed subject always to complying with this **clause 29** ;
  - 29.1.2 as soon as reasonably possible and in any event within one day after commencement of the Force Majeure, the Affected party shall notify the Other party in writing of the occurrence of the Force Majeure, the date of commencement of the Force Majeure and the effects and likely duration of the Force Majeure on its ability to perform its obligations under this Agreement;
  - 29.1.3 the Affected party shall use its reasonable endeavours to mitigate the effects of the Force Majeure upon the performance of its obligations under this Agreement and the Other party will use its reasonable endeavours to assist the Affected party with the aim of reducing the Force Majeure Period; and
  - 29.1.4 as soon as reasonably possible and in any event within one day of cessation of the Force Majeure, the Affected party shall notify the Other party in writing of the cessation of the Force Majeure and shall resume performance of its obligations under this Agreement as soon as reasonably possible.

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- 29.2 Without prejudice to **clause 29.3**, during or in relation to any Force Majeure Period, Client shall not be obliged to pay to the Contractor any sum due pursuant to **clause 21** in respect of the affected Service Elements to the extent that Client does not or is not able to receive the affected Service Elements.
- 29.3 If any Force Majeure preventing the Contractor from providing any or all of the Services in accordance with this Agreement:
- 29.3.1 prevails for a continuous period of three days, then Client shall be entitled to enforce its rights to step in, in accordance with the terms of **clause 30**, if Client reasonably believes that by enforcing its rights to step in it might mitigate the consequences of the Force Majeure; and/or
- 29.3.2 prevails for either a continuous period in excess of 45 days or 60 days in aggregate in any period of 365 days, then Client shall be entitled to terminate this Agreement by giving not less than 20 Business Days' notice in writing to the Contractor and the Contractor shall be entitled to terminate the provision of the Service Element(s) it is prevented from providing by such Force Majeure under the relevant Work Contracts on 30 days notice in writing to Client and the Charges payable under the relevant Work Contracts shall be adjusted accordingly through the Change Control Process;
- 29.4 “ **Force Majeure** ” shall mean any cause preventing a party from performing any or all of its obligations (other than payment) which is beyond its reasonable control and which arises from or is attributable to an act of God (any act, event, omission or accident which is expressed to be handled by a BCP or which the BCP is practicably capable of addressing, shall not, for the avoidance of doubt, give rise to Force Majeure) and which cannot be avoided by the party taking reasonable steps. The following causes preventing a party from performing any or all of its obligations shall not be Force Majeure; default or delay of the Affected party or subcontractors (unless the default or delay of the Affected party or a subcontractor is itself caused by an event of Force Majeure); strikes; lockouts or industrial action of Affected party's workforce; or any event attributable to the wilful act or neglect of the Affected party.

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31. **DISPUTE RESOLUTION**

- 31.1 If, during the term of this Agreement, a dispute arises between Client and the Contractor relating to this Agreement (including any Work Contract) and they cannot reach agreement, the unresolved matter will be escalated between them in accordance with this **clause 31** .
- 31.2 A dispute referred for determination under this **clause 31** relating to any Work Contract shall be escalated internally for resolution as follows:
- 31.2.1 by referral in writing (issued by either of Client and the Contractor) in the first instance to the persons designated as the stage 1 representative in **Annex 9** of the Work Contract the subject of the dispute;
- 31.2.2 if a dispute is not resolved within two Business Days of its referral under **clause 31.2.1** , or such longer period as may be agreed between the parties, either Client or the Contractor may refer the dispute in the next instance to the persons designated by each party as the stage 2 representative in **Annex 9** of the Work Contract the subject of the dispute;



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- 31.2.3 if a dispute is not resolved within five Business Days of its referral under **clause 31.2.2** , or such longer period as may be agreed between the parties, either Client or the Contractor may refer the dispute in the next instance to the persons designated by each party as the stage 3 representative in **Annex 9** of the Work Contract the subject of the dispute; and
- 31.2.4 if a dispute is not resolved within five Business Days of its referral pursuant to **clause 31.2.3** or such longer period as may be agreed by the parties, either Client or the Contractor may refer the dispute pursuant to **clause 31.4** .
- 31.3 A dispute referred for determination under this **clause 31** relating to this Agreement shall be escalated internally for resolution as follows:
- 31.3.1 by referral in writing (issued by either Client or the Contractor) in the first instance to the persons designated as the stage one representative being:
- Stage one representative        - Client's Contract Manager  
   - the Contractor's Country Manager;
- 31.3.2 if a dispute is not resolved within two Business Days of its referral under **clause 31.3.1** , or such longer period as may be agreed between the parties, either Client or the Contractor may refer the dispute in the next instance to the persons designated by each party as the stage 2 representative being:
- Stage 2 representative        - Client's Head of General Procurement  
   - the Contractor's General Counsel;
- 31.3.3 if a dispute is not resolved within five Business Days of its referral under **clause 31.3.2** , or such longer period as may be agreed between the parties, either Client or the Contractor may refer the dispute in the next instance to the persons designated by each party as the stage 3 representative being:
- Stage 3 representative        - Client's Commercial Director  
   - the Contractor's CEO;
- 31.3.4 if a dispute is not resolved within five Business Days of its referral pursuant to **clause 31.3.3** or in each case such longer period as may be agreed by the parties, either Client or the Contractor may refer the dispute pursuant to **clause 31.4** .

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31.4

31.4.1 If any dispute has not been resolved pursuant to **clause 31.2** or **31.3** , as appropriate, then, subject to **clause 31.6** , either of Client and the Contractor may by notice in writing to the other of them refer such dispute to the London Court of International Arbitration in accordance with the rules of the London Court of International Arbitration then in force.

31.4.2 The number of arbitrators will be three; each of Client and Contractor to appoint an arbitrator and the arbitrators so appointed to appoint the third.

31.4.3 The place of arbitration will be London and the language to be used in the arbitral proceedings will be English.

31.4.4 The parties hereby waive irrevocably:

any right of appeal under the Arbitration Act 1996 in relation to any award made by the arbitration tribunal appointed in accordance with this **clause 31.4** ; and

any right to apply to the High Court under the Arbitration Act 1996 for the determination of any question of law arising in the course of any reference to arbitration under this clause.

31.5 Notwithstanding **clause 31.1** to **31.4** , either Client or the Contractor may, if it reasonably regards any dispute as being of sufficient importance, immediately escalate a dispute to stage 3 (as set out in **clauses 31.2.3** and **31.3.3** ) and any escalation subsequent to such escalation shall be in accordance with **clauses 31.2.4** , **31.3.4** and **31.4** .

31.6 If either Client or the Contractor is unable to implement (or conclude) the arbitration provisions in **clause 31.5** , or is seeking injunctive or other similar equitable relief, whether pursuant to **clause 36.9** or otherwise, either of Client and the Contractor may resolve the matter pursuant to **clause 47.2** in the English courts.

## 32. TERMINATION

32.1 Subject to **clause 33.7** , Client may terminate this Agreement by written notice to the Contractor either in its whole, or in relation to one or more Work Contracts, or Service Elements detailed in a Work Contract, immediately if:

32.1.1 the Contractor is in material breach of any of the terms of this Agreement and, where the breach is capable of remedy, the Contractor fails to remedy such breach within 30 days after service of a written notice from Client specifying the breach and requiring it to be remedied;

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- 32.1.2 the Contractor makes a series of non-material breaches (which in aggregate have a material effect) and, following written notice of this served by Client upon the Contractor, the Contractor has not prepared and implemented a rectification plan which will prevent the reoccurrence of such non-material breaches within 30 days of the date of Client initial notice pursuant to this **clause 32.1.2** .
- 32.2 Client may by seven days' prior written notice served on the Contractor terminate this Agreement, subject to **clause 33.7** , either in its whole, or in relation to one or more of the Work Contracts, or Service Elements detailed in a Work Contract:
- 32.2.1 pursuant to its rights of termination expressly referenced in **clauses 7.11 , 7.12, 9.4 and 15.3.3** , and paragraph 6.3 in Schedule 4;
- 32.2.2 subject to **clause 32.3** , the Contractor has a change in its Control; and/or
- 32.2.3 any Regulatory Authority prohibits Client from receiving Services (or services similar to the Services) and/or places limits or controls on Client which are commercially unacceptable to Client and such prohibition, limit or control arises from the Contractor's breach of **clause 15.1** .
- 32.3 It is understood between the parties that the equity securities of the Contractor may be the subject of a public offering during the term of the Agreement and Work Contracts.
- 32.3.1 It is agreed that in these circumstances Client may terminate the Agreement, by 60 Business Days' prior written notice, if:
- 32.3.1.1 when the initial public offering is made or at any time thereafter, 30% or more of the equity securities of the Contractor become owned or under the control of a single investor who is not an investor at the date of this Agreement provided that this shall not apply to holdings of the equity securities of the Contractor by underwriters as a consequence of the initial public offering in their role as such, or holdings maintained by fund managers on behalf of unconnected groups of individual investors;

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- 32.3.1.2 within the first two years following the Effective Date, either of the senior managers of the Contractor (being for the purposes of this **clause 32.3** . Vikram Talwar and Rohit Kapoor) cease to be employed by the business (save in the event of death or incapacitation of such senior managers).
- 32.3.2 The Contractor agrees that it shall monitor shareholdings and senior management and if any of the criteria in **clauses 32.3.1.1** to **32.3.1.2** are fulfilled, the Contractor shall notify Client immediately in writing as soon as the Contractor becomes so aware.
- 32.3.3 Client agrees to exercise or waive its right to terminate pursuant to **clause 32.3.1.1** within 30 Business Days following written notice from the Contractor pursuant to this **clause 32.3** that a person or entity has obtained 30% or more of the equity securities of the Contractor.
- 32.3.4 If the Contractor anticipates one of the events in **clause 32.3.1.1** to **32.3.1.2** occurring it may approach Client for consent to engage in such transaction, not to be unreasonably withheld or delayed. In deciding whether to consent and thereby waive its right to terminate pursuant to **clauses 32.3.1.1** and **32.3.1.2** , Client shall act reasonably. For the avoidance of doubt, Client may consider the nature of previous relationships with the entity, or the positioning of that entity's business in comparison with that of Client, when assessing reasonableness.
- 32.4 Either of Client and the Contractor (the “ **Terminating Party** ”) may by written notice served on the other of them (the “ **Defaulting Party** ”) terminate this Agreement immediately, subject to **clause 33.7** , if:
- 32.4.1 the Defaulting Party summons a meeting of its creditors, makes a proposal for a voluntary arrangement, becomes subject to any voluntary arrangement, is unable to pay its debts within the meaning of section 123 Insolvency Act 1986, has a receiver, manager, administrator or administrative receiver appointed over any of its assets, undertakings or income, has passed a resolution for its winding-up (save for the purpose of a voluntary reconstruction or amalgamation), is subject to a bona fide petition presented to any Court for its winding-up (save for the purpose of a voluntary reconstruction or amalgamation), is subject to a bona fide petition presented to any Court for its administration, has a provisional liquidator appointed, has a proposal made for a scheme of arrangement under section 425 Companies Act 1985 representing a compromise with its creditors or is the subject of a bona fide notice to strike off the register at Companies House or is subject to an administration order;

32.4.2 the Defaulting Party has any distraint, execution or other process levied or enforced on any of its property which is not contested or paid out within 20 days of being levied or enforced;

32.4.3 the equivalent of any of the above occurs to the Defaulting Party under any jurisdiction to which that party is subject; or

32.4.4 the Defaulting Party ceases to trade.

### 33. **EFFECT OF TERMINATION**

- 33.1 The termination of this Agreement, or of a Work Contract, howsoever arising is without prejudice to the rights and remedies of any party accrued prior to termination.
- 33.2 The clauses in this Agreement which expressly or impliedly have effect after termination will continue to be enforceable notwithstanding termination.
- 33.3 Notwithstanding the service of notice to terminate this Agreement or a Work Contract pursuant to **clause 32** or any other express right of termination set out in this Agreement, the Contractor shall continue to provide the Services in strict accordance with the terms of this Agreement and relevant Work Contract until the date of termination of this Agreement or Work Contract and thereafter as required pursuant to **clause 33.7** .
- 33.4 Upon cessation of Services hereunder, each of Client and the Contractor shall return to the other all property of the other in its possession including Confidential Information and shall delete from its systems and/or destroy (as applicable) any Confidential Information which would otherwise remain on the Contractor's Hardware. In addition, the Contractor shall comply with the handover and confidential destruction requirements contained in **paragraph 14 of Schedule 18** . This clause will not operate to the extent that such Confidential Information is required as part of the party's records for audit purposes, or for regulatory or legislative purposes subject to that party complying on an ongoing basis with the confidentiality obligation set out in **clause 36** .
- 33.5 The parties shall comply fully with the terms of the Exit Plan (both before and after the date of termination of this Agreement or Work Contract (as applicable)) to facilitate the handover of the Services (including any necessary migration) to Client or to a third party contractor. The Contractor's obligations in the Exit Plan shall be performed at no cost to Client save to the extent that costs and/or an incentive fee are expressed to be payable in the Exit Plan.

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- 33.6 In addition to the provisions of **clause 33.5** , the Contractor shall provide such assistance as Client may reasonably require beyond any actions specified in the Exit Plan where this is necessary in order to ensure an effective handover of responsibility for the provision of the Services to Client or its nominee.
- 33.7 In the event that this Agreement is terminated by Client pursuant to **clause 32** , then notwithstanding such termination the Contractor shall continue to provide the Services or Service Elements under this Agreement (whether pursuant to one or more Work Contracts) for such period as Client may specify being a period no greater than 12 months after the relevant date of termination (such period being referred to as the “ **Continuation Period** ”) and Client shall continue to pay the Charges and all sums due in respect of the relevant Services to the Contractor during the relevant Continuation Period at the rates (as varied from time to time in accordance with the terms of the Agreement) which are or would be applicable under this Agreement as though this Agreement or Work Contract(s) were continuing in full force and effect provided that the Contractor shall have no liability (financial or otherwise) in relation to any breach or non-performance of any of its obligations under this Agreement (whether caused by its negligence or otherwise) which continues beyond the date of termination of this Agreement or Work Contract into and during any Continuation Period to the extent that such breach which was pre-existing at the date of termination of this Agreement or Work Contract continues beyond the date of termination of this Agreement or Work Contract.
- 33.8 The Contractor shall indemnify and keep indemnified Client from and against all claims, liabilities, costs and expenses arising from or in connection with any claim made by the employees, agents or contractors of the Contractor against Client whether during or after the term of this Agreement.
- 33.9 Each clause in this **clause 33** shall be applied for:
- 33.9.1 both part termination of a Service Element or Service Elements, in which case this **clause 33** shall be applied solely in respect of such Service Element or Service Elements;
- 33.9.2 termination of the entire Agreement; or

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33.9.3 termination of one or more Works Contract, in which case this **clause 33** shall be applied solely in respect of such terminated Work Contract(s).

33.10

33.10.1 In the event Client terminates this Agreement pursuant to **clause 32.4** or **Clause 35** , the Client may at its option exercise the rights set out in **Schedule 14** and Client and the Contractor shall act in accordance with the terms and principles set out in **Schedule 14** .

33.10.2 The Contractor shall use all reasonable endeavours to arrange its affairs in relation to the provision of the Services so as to ensure that the rights of Client set out in **Schedule 14** may be exercised fully and effectively.

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35. **EMPLOYEES**

**Client Indemnity upon entry into the Agreement**

35.1 The Client shall be liable for and shall indemnify the Contractor in respect of all and any Emoluments and Employment Liabilities arising from or in connection with:

35.1.1 the transfer or purported transfer of employment to the Contractor and/or its subcontractors of any person currently or previously employed or engaged by the Client or its contractors (other than the Contractor) (collectively referred to as the “ **Client Staff** ”) arising by operation of the Transfer of Undertakings (Protection of Employment) Regulations 1981 (as amended) and any equivalent or other laws, whether in the United Kingdom or India (hereinafter known as “ **Employment Laws** ”); and/or

35.1.2 any failure by the Client or its contractors to discharge in full any obligation to inform or consult appropriate representatives or employees about the transactions contemplated by this Agreement or its termination or any other matter.



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36. **CONFIDENTIALITY**

- 36.1 In consideration of the Confidential Information being made available to a party, such party undertakes that it will:
- 36.1.1 use the Confidential Information solely as necessary for the purposes of this Agreement and only disclose the Confidential Information to those persons who are required in the course of their duties to receive and consider same;
  - 36.1.2 treat and safeguard as private and confidential all of the Confidential Information and not by any means whatsoever disclose or allow access to the Confidential Information (or permit such disclosure or access) to any person whatsoever without the prior written consent of the disclosing party, and in strict accordance with the terms of such consent;
  - 36.1.3 not without the prior written consent of the disclosing party copy by any means whatsoever any of the Confidential Information supplied or disclosed to it otherwise than as shall be necessary to fulfil its obligations under this Agreement;
  - 36.1.4 not make any commercial use of the Confidential Information or any part thereof save as agreed in writing or to carry out its obligations under this Agreement;
  - 36.1.5 procure that any of its advisers, agents, directors or employees to whom disclosure of any Confidential Information is to be made agree prior to such disclosure, to be bound by the obligations of this Agreement as if they were a party hereto and the party receiving the Confidential Information will be responsible for any breach of such obligations as they apply to such persons; and
  - 36.1.6 not reveal to any person other than as permitted by **clause 36.1.5** , or in accordance with **clause 36.3** , or make any public announcement:
    - 36.1.6.1 of the fact that it has requested or received any Confidential Information; or
    - 36.1.6.2 giving details of any terms or conditions of or other facts relating to the Confidential Information, or to its status, save as may be agreed between the parties in writing.

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- 36.2 The Contractor undertakes not to use the Confidential Information to provide services to any company that is not Client, and acknowledges that Client will not give consent to any such use either verbally or in writing. Any such consent purported to be given by any employee or agent of Client will not be valid.
- 36.3 In the event that Client or the Contractor as appropriate provides prior written consent to allow the other of them to disclose Confidential Information to a third party, the other of them will ensure that those third parties execute a confidentiality agreement in the form of that contained in **Schedule 1**.
- 36.4 Within seven days of receipt of a written request from a party hereto, on termination of a Work Contract or this Agreement (as appropriate) each other party will, in relation to the Confidential Information held in connection with the relevant terminated Work Contract, or all Confidential Information following termination of this Agreement, return to the other parties all physical Confidential Information that is in its possession or under its custody and control and all copies thereof and will expunge any Confidential Information from any computer, word processor or other device, and all analyses, compilations, notes studies, memoranda or other documents prepared which contain Confidential Information will be destroyed and each party will deliver to the other parties a certificate signed by a director confirming compliance with the requirements of this **clause 36.4**.
- 36.5 Subject as stated in this clause, the provisions of **clause 36.1** to **36.3** will not restrict any disclosure required by or essential to comply with any law or the requirements of any governmental or regulatory authority acting within the scope of its powers, provided that:
- 36.5.1 if possible, for requirements not falling within the scope of **clause 36.5.2** Client or the Contractor, as appropriate, is given not less than five Business Days' prior written notice of such disclosure by the other of them that is affected, and the affected party in any event takes all necessary steps at its expense to limit disclosure to the minimum required;
- 36.5.2 for requirements arising in connection with an IPO or similar listing relating to the Contractor or any of its Affiliates, Client shall be given not less than five Business Days' prior written notice of such disclosure and shall fully consult with and take account of Client's views as to the nature and requirements for such disclosure so as to in any event take all necessary steps at the Contractor's expense to limit disclosure to the minimum required; and

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- 36.5.3 the Contractor shall, in any event, not make any disclosure relating to the entering into of this Agreement and naming or identifying Client or any Affiliate of Client, prior to Client making such disclosure to its employees, such disclosure to be notified to the Contractor as soon as practicable.
- 36.6 Each of Client and the Contractor will be fully responsible for instituting, maintaining, implementing and enforcing all security or other measures to comply with its obligations under this **clause 36** .
- 36.7 Client makes no representation, express or implied, or gives any warranty with respect to the accuracy or completeness of Confidential Information supplied by Client or any oral communication in connection therewith. However, where the Contractor specifically advises Client in writing that it, acting reasonably, will be relying on the content of specific Confidential Information in the provision of the Services and Client acting reasonably confirms its agreement to this then the Contractor shall not be liable for any failure on its part to provide the Services in accordance with this Agreement to the extent that such failure is directly caused by errors or inaccuracy in such Confidential Information.
- 36.8 All Confidential Information supplied or disclosed by a party will remain the property of such party.
- 36.9 Without prejudice to any other rights or remedies under this Agreement, the parties acknowledge and agree that damages would not be an adequate remedy for any breach of the provisions of this **clause 36** , and an affected party will be entitled without proof of special damage to the remedies of injunction, specific performance and other equitable relief for any threatened or actual breach of any such provision by any other party.
- 36.10 The Contractor acknowledges that Client may be subject to the FOIA both at the Effective Date and to a greater or lesser degree at a later date. The Contractor will act in accordance with the FOIA (and any other applicable codes of practice or guidance notified to the Contractor from time to time relating to the supply of information) to the extent that they apply to the Contractor's performance under this Agreement.
- 36.11 The Contractor agrees that without prejudice to the generality of this **clause 36** , the Contractor provisions of this **clause 36** are subject to the respective obligations and commitments of Client under the FOIA and where Client is managing a request thereunder, the Contractor shall co-operate with Client making the request and shall respond within five Business Days of any request by it for assistance in determining how to respond to a request for disclosure.

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- 36.12 The Contractor shall and shall procure that its sub-contractors shall:
- 36.12.1 transfer any request for information, as defined under section 8 of the FOIA or the Environmental Information Regulations 2004, to Client as soon as practicable after receipt and in any event within five Business Days of receiving a request for information (and Client shall provide such explanations as the Contractor shall require to allow the Contractor to understand what information it needs to supply);
  - 36.12.2 provide Client with a copy of all information in its possession or power in the form that Client requires within five Business Days (or such other period as Client may specify) of Client requesting that Information; and
  - 36.12.3 provide all necessary assistance as reasonably requested by Client to enable Client to respond to a request for information within the time for compliance set out in section 10 of the FOIA or the Environmental Information Regulations 2004.
- 36.13 The restrictions upon Confidential Information contained in this **clause 36** will continue to apply after the termination of this Agreement without limit in time until the relevant Confidential Information is no longer confidential (other than as a result of a breach by any party of their obligations under this Agreement).
- 36.14 Each of the parties warrant that it has not made or published any statement relating to, or disclosed any Confidential Information prior to the date of this Agreement which would constitute a breach of the duty of confidentiality under this Work Contract if it had occurred after the date of this Agreement.
- 36.15 During the final six months of the term of a Work Contract and/or the Agreement including during the period of any extension, or following a notice of termination of this Agreement or a Work Contract as appropriate being issued by either of Client or Contractor, Client may reveal Confidential Information to any third party to whom it is considering transferring the Service, provided that Client shall procure that any such third party first agrees in writing to comply with confidentiality obligations in terms equivalent to those contained in this **clause 36** for the benefit of the Contractor.

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37. **ANNOUNCEMENTS/PUBLICITY**

Save as otherwise set out in this Agreement, no announcement, circular, advertisement or other publicity in connection with this Agreement, its subject matter, the fact that the parties are parties to it or any ancillary matter, including relating to a Work Contract, will be made or issued by or on behalf of Client or the Contractor (save, subject to what is set out in **clause 36.5**, as required by law) without the prior written consent of the Authorised Representative of the other of them (such consent not to be unreasonably withheld or delayed).

38. **ENTIRE AGREEMENT**

- 38.1 This Agreement and the Data Protection Agreement and all Work Contracts made under this Agreement contain all terms which the parties have agreed in relation to the subject matter of this Agreement, and supersede any prior written or oral agreements, representations or understandings between the parties in relation to such subject matter.
- 38.2 The parties acknowledge that this Agreement, the Data Protection Agreement and all Work Contracts made under this Agreement have not been entered into wholly or partly in reliance on, nor has any party been given any warranty, statement, promise or representation made by or on their behalf and other than as expressly set out in this Agreement, the Data Protection Agreement and all Work Contracts made under this Agreement. To the extent that any such warranties, statements, promises or representations have been given, the recipient party unconditionally and irrevocably waives any claims, rights or remedies which it might otherwise have in relation to them.
- 38.3 Nothing in this **clause 38** will exclude nor limit any liability which a party would otherwise have to another of the parties in respect of any statements made fraudulently.

39. **NOTICES**

**Services of Contractual Notices**

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

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

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

39.2.2 if delivered by Special Delivery post, 48 hours after being posted or in the case of Airmail, ten Business Days after being posted;

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

provided that, where in the case of delivery by hand or transmission by facsimile, such delivery or transmission occurs either after 4.00 pm on a Business Day, or on a day other than a Business Day, service will be deemed to occur at 9.00 am on the next following Business Day (such times being local time at the address of the recipient).

39.3 Service by facsimile is a valid means of service only where service of the original notice, demand or communication is not required.

39.4 The addresses and facsimile numbers for the parties are as follows:

**Client**

FAO The Company Secretary

Centrica plc

Millstream, Maidenhead Road,  
Windsor, Berkshire, SL4 5GD

Facsimile: +44 1753 494602

**Contractor**

FAO The President

EXL US

350 Park Avenue, 10th Floor,  
New York, NY 10022, USA

Facsimile: (+1) 212-277-7111

39.5 For the avoidance of doubt the service of any notice in accordance with the above provisions on EXL US addressed to 350 Park Avenue, 10th Floor, New York, NY 10022, USA shall constitute effective service of such nature on the Contractor.

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## Service of Court Documents

- 39.6 For the avoidance of doubt, where proceedings have been issued in the Courts of England and Wales, the provisions of the Civil Procedure Rules must be complied with in respect of the service of documents in connection with those proceedings.
- 39.7 EXL US and EXL India irrevocably agrees that any claim form, order, judgment or other process (“ **Service Document** ”) may be sufficiently and effectively served on both EXL US and EXL India in connection with any proceedings in England and Wales arising out of or in any way connected after this Agreement (“ **proceedings** ”) by service on the United Kingdom service agent at ExlService (UK) Limited, Russell Bedford House, City Forum, 250 City Road, London EC1V 2QQ (the “ **agent** ” for service).
- 39.8 If the agent referred to in **clause 39.7** (or any replacement agent notified by EXL US and EXL India to Client in writing from time to time) ceases for any reason to act as such, EXL US and EXL India will forthwith appoint a replacement agent having an address for service in England or Wales and immediately notify Client of this change in writing.

## 40. WAIVER

- 40.1 The failure or delay by any party to this Agreement in exercising any right, power or remedy of that party under this Agreement will not in any circumstances impair such right, power or remedy nor operate as a waiver of it.
- 40.2 Subject as expressly provided in this Agreement the rights, powers and remedies provided in this Agreement are exclusive of any rights, powers and remedies provided by law.
- 40.3 Any waiver of a breach of, or default under, any of the terms of this Agreement will not be deemed a waiver of any subsequent breach or default and will in no way affect the other terms of this Agreement.

## 41. INVALIDITY AND SEVERABILITY

- If at any time any clause or part of this Agreement or any Work Contract is found by any court, tribunal or administrative body of competent jurisdiction to be wholly or partly illegal, invalid or unenforceable in any respect under the law of England and Wales or India:
- 41.1 that will not affect any other provisions of this Agreement or Work Contract which will remain in full force and effect except where it deprives one of the parties of a substantial part of the benefit intended to be derived by it from this Agreement or Work Contract without providing any corresponding benefit;

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- 41.2 the parties will in good faith amend and, if necessary, novate this Agreement or Work Contract to reflect as nearly as possible the spirit and intention behind that illegal, invalid or unenforceable provision so that the amended clause complies with the laws of that jurisdiction; and
- 41.3 if the parties cannot agree upon the terms of any amendment or novation within six months of the date upon which a clause was determined to be wholly or partly illegal, invalid or unenforceable, then the parties agree to submit the terms of the amendment or novation to a mediator at the Centre for Effective Dispute Resolution for determination. The parties agree that the mediator's decision in this respect will be final and binding.

#### 42. **ASSIGNABILITY**

- 42.1 The Contractor may not assign, delegate, transfer or otherwise dispose of any of its rights or responsibilities under this Agreement without the prior written consent of Client, such consent not to be unreasonably withheld or delayed.
- 42.2 Subject to **clause 42.4** , Client may without consent assign, delegate or transfer its rights or responsibilities under this Agreement to any member of the Client Group company from time to time provided that there is no change to the jurisdiction to which the Client must provide the Services and no change to the nature of Services being provided by the Contractor. Client will serve a written notice upon the Contractor prior to exercising its right pursuant to this **clause 42.2** .
- 42.3 Subject to **clause 42.4** , in the event that **clause 42.2** does not apply, Client may assign, delegate, transfer or otherwise dispose of its rights or responsibilities under this Agreement to any company from time to time provided that such company's most recently published balance sheets and a current credit rating (procured from Standard & Poors or an equivalent reputable international credit reference agency acceptable to both Client and the Contractor) collectively indicate to the reasonable satisfaction of Client and the Contractor that such company is sufficiently creditworthy to carry out the obligations of Client under this Agreement. Client will serve a written notice seeking consent from the Contractor prior to exercising its right pursuant to this **clause 42.3** , such consent not to be unreasonably withheld or delayed.



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42.4 Client may not assign or transfer its rights or responsibilities under this Agreement to any of the ten largest UK-based entities whose sole or primary activities are the carrying on of the business of the provision of life insurance services or the ten largest UK-based entities whose sole or primary activities are the carrying on of the business of the provision general insurance services.

43. **GROUP BENEFIT**

- 43.1 Companies which are a member of the Client Group have the right to enforce any terms of this Agreement which confer a benefit upon them in accordance with the Contracts (Rights of Third Parties) Act 1999.
- 43.2 The parties reserve the right to rescind or vary this Agreement or waive, modify or vary any term of it without the consent of any Client Group companies (save for Client).

44. **SUBCONTRACTING**

- 44.1 The Contractor shall not be entitled to appoint a contractor or an agent for the provision of any part of the Services without the prior written consent of Client and, if Client grants such consent, the agent or contractor so appointed will be a **“Permitted Contractor”**.
- 44.2 In the event that the Contractor appoints a Permitted Contractor the Contractor shall, as between Client and the Contractor, be liable for the acts or omissions of the Permitted Contractor as if they were the Contractor’s own acts or omissions including compliance with the KPIs.
- 44.3 Each Permitted Contractor must enter into a confidentiality agreement with the Contractor for the benefit of Client, strictly in the form set out in **Schedule 1**. Until such a confidentiality agreement is signed the Permitted Contractor shall not commence its services for the Contractor and shall not be granted any access to any Confidential Information.

45. **NO PARTNERSHIP**

- 45.1 Nothing contained in this Agreement, and no action taken by the parties pursuant to this Agreement, will be deemed to constitute a relationship between the parties of partnership, joint venture, principal and agent or employer and employee. Neither of Client or the Contractor has, nor may it represent that it has, any authority to act or make any commitments on the other’s behalf, other than as expressly stated in this Agreement or as required for the purposes of providing the Services pursuant to this Agreement.

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46. **AMENDMENT**

46.1 No amendment to the Agreement will be effective unless it is agreed in writing and signed by a duly Authorised Representative of each of Client and the Contractor (who is in each case an individual of escalation stage 2 or higher in **clause 31.3** .)

47. **LAW AND JURISDICTION**

47.1 The formation, existence, construction, performance, validity and all aspects whatsoever of this Agreement or of any term of this Agreement or of any Work Contract entered into pursuant to this Agreement will be governed by English law.

47.2 Subject to **clause 31.4** , the courts of England will have exclusive jurisdiction to settle any disputes which may arise out of or in connection with this Agreement. The parties irrevocably agree to submit to that jurisdiction.

48. **COUNTERPARTS**

This Agreement may be entered into by the execution by the parties of this document, or by the execution by the parties of two or more identical copies of this document including by facsimile (in this latter case, each copy will be deemed to be a counterpart, and all such documents taken together will be deemed to form one contract).

49. **NON-SOLICITATION**

Save where agreed pursuant to an Exit Plan or where expressly permitted pursuant to **clause 33.10** and **Schedule 14** , Client agrees that it shall not during the term of this Agreement solicit for the purposes of employment members of staff of the Contractor engaged in the performance of the Services. For the avoidance of doubt this shall not preclude Client offering employment to any person approaching Client in response to a published advertisement (not specifically directed at Staff) with no inducement or solicitation on the part of Client.

**AS WITNESS** the hands of the duly authorised representatives of the parties on the date stated at the beginning of this Agreement.

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**SIGNED by Mark Clare** )  
duly authorised to sign for and on behalf of )  
**CENTRICA plc** )  
in the presence of: )

**SIGNED by Rohit Kapoor** )  
duly authorised to sign for and on behalf of )  
**EXLSERVICE HOLDINGS, INC.** )  
in the presence of: )

**SIGNED by Vikram Talwar** )  
duly authorised to sign for and on behalf of )  
**exl Service.com (India) Private Limited** )  
in the presence of: )

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-139211 and No. 333-157076) pertaining to the 2003 Stock Option Plan, 2003 India Stock Employee Option Plan, 2006 Omnibus Award Plan, 2006 Omnibus India Subplan 1 and 2006 Omnibus India Subplan 2 of ExlService Holdings, Inc. of our reports dated March 16, 2009, with respect to the consolidated financial statements of ExlService Holdings, Inc., and the effectiveness of internal control over financial reporting of ExlService Holdings, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2008.

/s/ Ernst & Young LLP

New York, New York  
March 16, 2009

## SECTION 302 CERTIFICATION

I, Vikram Talwar, certify that:

1. I have reviewed this annual report of ExlService Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2009

/s/ Vikram Talwar  
Vikram Talwar  
Executive Chairman

## SECTION 302 CERTIFICATION

I, Matthew Appel, certify that:

1. I have reviewed this annual report of ExlService Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2009

/s/ Matthew Appel  
Matthew Appel  
Chief Financial Officer

## SECTION 302 CERTIFICATION

I, Rohit Kapoor, certify that:

1. I have reviewed this annual report of ExlService Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2009

/s/ Rohit Kapoor

Rohit Kapoor

President and Chief Executive Officer

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of ExlService Holdings, Inc. (the "Company") on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Vikram Talwar, Executive Chairman of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Vikram Talwar

Vikram Talwar

Executive Chairman

March 16, 2009



CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of ExlService Holdings, Inc. (the "Company") on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matthew Appel, 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/ Matthew Appel

Matthew Appel  
Chief Financial Officer

March 16, 2009

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of ExlService Holdings, Inc. (the "Company") on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rohit Kapoor, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Rohit Kapoor

Rohit Kapoor

President and Chief Executive Officer

March 16, 2009