ExlService Holdings, Inc.
Form 10-K
March 16, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE YEAR ENDED DECEMBER 31, 2010

OR

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

COMMISSION FILE NUMBER 001-33089

EXLSERVICE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**82-0572194**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
280 PARK AVENUE, 38TH FLOOR, NEW YORK, NEW YORK	**10017**
(Address of principal executive offices)	**(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:	**Name of Each Exchange on Which Registered:**
Common Stock, par value $0.001 per share	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 x

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 x

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

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

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

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

As of June 30, 2010, the aggregate market value of common stock held by non-affiliates was approximately $258,623,915.

As of February 28, 2011, there were 29,561,068 shares of the registrant s common stock outstanding (excluding 254,216 shares held in treasury and 198,385 shares of restricted stock), par value $0.001 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information from certain portions of the registrant s definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the fiscal year end of December 31, 2010.

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PART I.

ITEM 1. Business

We are a leading provider of outsourcing and transformation services focused on providing a competitive edge to our clients. Our outsourcing services provide front-, middle- and back-office process outsourcing services for our primarily U.S.-based and U.K.-based clients. Outsourcing services involve the transfer to us of select business operations of a client, such as claims processing, finance and accounting and customer service, after which we administer and manage the operations for our client on an ongoing basis. We also offer a number of transformation service offerings that include decision analytics, risk and financial management, and operations and process excellence. These transformation services help our clients improve their operating environments through cost reduction, enhanced efficiency and productivity initiatives, and improve the risk and control environments within our clients operations whether or not they are outsourced to us. We serve primarily the needs of Fortune Global 500 and Fortune 1000 companies in the insurance, utilities, banking and financial services, transportation and logistics and travel sectors.

Our services for each of the sectors include:

We combine in-depth knowledge of the industry sectors on which we are focused with proven expertise in transferring business operations to our offshore delivery centers and administering and managing them. We have successfully transferred more than 630 processes covering a broad array of products and services to our operations centers, including approximately 110 new processes that were transferred to us in 2010.

Our largest clients in 2010 were Centrica plc (Centrica), The Travelers Indemnity Company (Travelers) and American Express Company (American Express). Other clients include over sixty of the leading U.S. insurance companies, over fifteen leading global banks and financial services companies, three European utilities companies and three leading transportation and logistics services providers. Our operations centers are located in India, the Philippines, the Czech Republic, the U.S. and Romania. Our geographic footprint enables us to leverage the large pool of highly qualified and educated technical professionals who are able to handle complex processes and services that require functional skills and industry expertise. While a majority of our professionals provide services in the English language, our operations in the Czech Republic and Romania have provided us with multi-lingual delivery capabilities. We believe we can offer consistent high quality services at substantially lower costs than those available from U.S.- or U.K.-based in-house facilities or U.S.- or U.K.-based outsourcing providers. As of December 31, 2010, we had a headcount of approximately 12,700 individuals, a substantial portion of whom are based in India. Our operations platforms are supported by a state-of-the-art infrastructure that can be expanded to meet each client s needs. We market our services directly through our sales and marketing and client management teams, which operate out of the United States and the United Kingdom, and our business development support team, which operates out of India. Our senior managers have extensive experience in the industry sectors on which we are focused and are well versed in the business practices of leading multinational corporations.

We believe our reputation for operational excellence is widely recognized by our clients and is an important competitive advantage. We use Six Sigma and Lean Six Sigma, data-driven methodologies for eliminating defects in any process, to identify process inefficiencies and improve productivity in client and support processes. We deliver continued process enhancements by soliciting and implementing process improvements from employees and through our proprietary software tools. As a part of our commitment to quality, we are certified to the ISO 9001:2008 standard for our quality management system. We are also certified to the ISO 27001:2005 standard for our information security management system. This standard requires policies and processes to be deployed to ensure adequate information security controls in the organization. Additionally we are also certified to the OHSAS 18001:2007 standard, which relates to our occupational health and safety management processes. We have also received an unqualified general controls and process specific SAS 70 Type II opinion from Ernst & Young LLP, our independent registered public accounting firm.

Services

Outsourcing Services

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

Insurance. Within the life insurance, property and casualty insurance, health and disability 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, underwriting support, new business processing, policy servicing, premium audit, billing and collection and customer service. We have acquired significant experience in transferring and managing processes in these areas. In connection with our acquisition of Professional Data Management Again, Inc. (PDMA) on May 1, 2010, we acquired an insurance policy administration platform called LifePRO®. Approximately 40 insurance companies use LifePRO® to administer their life insurance, health insurance, annuities and credit life and disability insurance policies. LifePRO® clients can easily access their customer data and system logic, providing important tools for our clients to integrate with external applications, web interfaces and reporting systems. We offer LifePRO® as an application service provider or as a licensed product to our clients. We also have significant expertise in implementing, maintaining and modifying LifePRO®. For select clients we provide both transaction processing and servicing using the LifePRO® platform thereby providing a combined technology and business process outsourcing service offering to them.

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

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

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

Travel. We have significant experience and expertise in managing and improving operational, financial and analytical functions for travel management companies and offer similar services to other travel industry participants such as airlines, hotels, cruise operators and global distribution systems companies. Our activities include reporting and analytics, revenue accounting, order fulfillment, management of account receivables and account payables, account set-up and reservations.

Finance and Accounting. We provide certain finance and accounting services, including accounts payable, research, reconciliation of accounts, expense accounting, financial accounting, departmental accounting, treasury management, tax accounting, budgeting and management information systems reporting.

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

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

Across the BPO services described above, we have successfully transferred and managed more than 630 processes, including the following:

Insurance Processes	
Life, Health and Annuity	**Property and Casualty Insurance**
Administration of Insurance Agents	*New Business Processing*
Licensing and contracting renewals, terminations, correspondence, commissions and brokerage amounts, debt management, administrating unclaimed monies by insurance agents	Sales and conversion, quote acceptance, establishing new policies, policy upgrades, sales of multiple products, indexing, sales and customer service support for auto and home, premium collections and reports
New Business Processing	*Administration of Current Policies*
Prescreening and acquiring new customers, underwriting, underwriting support, delivery requirements follow-up, policy issuance, fund application, refunds, non-sufficient funds, customer inquiries	Customer service, lapses and renewals, mid-term adjustments, endorsement, account reconciliations, conversion
Administration of Current Policies	*Claims Processing*
Title and address changes, beneficiary and owner changes, certificate reissuance, endorsement, policy transfers, quotes and reinstatements, loans, exchanges, policy term conversions, withdrawals, dividends, surrenders, maturities, direct debit instructions, customer service, billing, policy value, interest rates	First notification of loss, initial reporting of claims and account initiation, data capture, customer service, technical claims, documentation, claims based on third party fault, total loss, scheduling on-site engineers inspection visits, claims coverage, claims adjudication, utility review, auto liability adjudication, subrogation, file quality management, pet claims processing, medical record summarization, construction defect record summarization, workers compensation claims processing

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Life, Health and Annuity	Property and Casualty Insurance
Premium Administration	*Premium Administration*
Application of premium, loan and interest adjustment, daily premium balancing, suspended policy research, payment mode changes, customer correspondence and service	Payment mode changes, collection, calculation and revision of premium
Claims Processing	*Broker Collections*
Examination, data gathering, adjudication, settlement, tax compliance, validation and compliance with state laws, customer correspondence and service, disability and dental claims and processing of Medicare set-aside packages	Broker query resolution, payment collection, debt management, payment reconciliation
Fixed and Variable Annuities	*Supplier Payments*
Change of address, beneficiary changes, withdrawals, surrender requests, exchanges, rollovers, transfers, suspensions, tax information, document verification, billing, policy value, policy coverage, interest rates	Invoice validation, claim validation and settlement, payment processing, supplier inquiries
Policy Research and Manual Calculation	*Appointment Scheduling*
Research of policy history, manual calculation of policy values and correction of records, calculation of tax gain and details for IRS filing	Scheduling appointments between auditors and insureds
	Motor Club Services
	Initial reporting of vehicle emergency and emergency road side services, motor incident management, hire management, credit hire, recoveries
	Premium Audit
	Audit scheduling, policy holder file phone and mail audit, premium calculations, customer surveys, customer service

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Utilities, Banking and Financial Services, Transportation and Logistics, Travel and Other Processes		
Utilities	**Retail Banking and Credit Cards**	**Mortgage Lending**
Account maintenance	Collections	Broker license verification
Credit operations	Customer service	Broker due diligence
Customer transfers	E-mail response	Document management
Customer address changes	Query resolution	Loan underwriting support
Debt collections	Portfolio reconciliation and reporting	Loan verification
Device management		Property tax servicing
Disputed readings		New loan set-up
Energy payment systems		Post-close processes
Metering and billing		Rate modification
Sales support and acquisitions		Mortgage customer service
Withdrawals		Seller/broker queries
Imbalance management		Trailing documentation

Settlement operations		Wire approvals
Prepayment account management		
Fraud key meter management		

Consumer Finance	Finance and Accounting	Collections and Credit
Balance disputes	Accounts payable management	Automated dialing systems
Billing	Booked vs. billed reconciliation	Collections from individuals
Consumer finance processing including verification, tracking and recording	Cash reconciliation	Collections from businesses
Collections	Centralized payments	Pre and post charge-off collection

Consumer Finance	Finance and Accounting	Collections and Credit
Credit approvals	Check reconciliation	Tracking debtors
Inbound customer service	Collections reconciliation	
Order status	Credit control	
Loan payoff	Cash management	
Telemarketing	Financial closing and month-end reporting	
	Manual intervention	
	Meta-tagging and account taxonomy	

Procurement

Travel and expense reporting

Validation and payment

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Utilities, Banking and Financial Services, Transportation and Logistics, Travel and Other Processes	
Transportation and Logistics	**Travel**
Bill correction	Reporting and analytics
Bill entry	Revenue accounting and balance sheet management
Cargo claims	Order fulfillment
Freight bill audit	Reference audit
Payment processing	Client billing and account receivables management
Reference audit	Reservations
	Supplier settlements and reconciliations
	Account setup

Customer Service Processes	
Voice, e-mail and blended processes	Fulfilling orders, including e-mail queries and online orders
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	

Transformation Services

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

These transformation services focus on helping our clients by improving their operating environments through cost reduction, enhanced efficiency and productivity initiatives, and improving the risk and control environment within our clients operations whether or not they are outsourced to us. Our transformation services have enabled us to expand our client base by providing complementary service offerings to our clients and also to migrate clients into our longer-term BPO services. We have experienced a significant increase in demand for our annuity-based transformation services, which are engagements that are contracted for one to three year terms. 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 650 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.

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

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

Risk and Financial Management

We offer governance, risk and compliance services as well as accounting and financial reporting services. Many of our professionals who provide these services are certified accountants, internal auditors and process and technology experts. Our governance, risk and compliance services include both compliance support and risk management and advisory services. Compliance support services include implementation and controls testing services that assist our clients with their efforts to comply with laws and regulations, such as the Sarbanes-Oxley Act of 2002, the Bank Holding Company Act of 1956, the EU s Data Protection Directive and Solvency II standards, the regulations of the UK s Financial Services Authority and industry standards such as the Payment Card Industry Data Security Standard. We also provide compliance advisory services which include supporting our clients internal audit departments, designing and implementing enterprise and operational risk management programs, risk analytics and risk reporting. In addition we also provide assistance with automation and monitoring of compliance programs and controls, implementation of specialized risk management compliance tools and services designed to optimize the efficiency and effectiveness of risk management and compliance processes.

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

Operations and Process Excellence Services

We assist clients in understanding, controlling and improving their business processes in a number of different industries with a view to improving the effectiveness and decreasing the cost of such processes. Our services identify business processes that can be improved by documenting processes, creating standard operating procedures, defining metrics and evaluation criteria as well as creating customized dashboards and reporting using our proprietary methodology. By diagnosing existing processes, we are able to assist our clients in improving their processes through modifying the processes by eliminating or automating certain activities. We are also able to assist our clients by transforming their business processes using Six Sigma and Lean Six Sigma methodologies. Our professionals can advise on and subsequently manage and validate the effectiveness of enterprise-wide cost reduction or other projects.

Geographic and Segment Information

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

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Business Strategy

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

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

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

Offering a Broad Range of Outsourcing and Transformation Services

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

Expanding Our Client Base

We intend to develop long-term relationships that present recurring revenue opportunities with new clients by leveraging our industry experience and expanding our marketing activities in a manner designed to strengthen, encourage and accelerate long-term relationship building. We continue to target Fortune Global 500 and Fortune 1000 companies that have the most complex and diverse processes and accordingly stand to benefit significantly from the use of BPO. In developing these relationships, our primary focus will be to continue to provide complex and integrated BPO services to clients in the United States and United Kingdom, which together represent a substantial majority of the total BPO market. We believe that our geographically distributed network of operations centers will enable us to expand our client base and range of services. In developing new client relationships, we continue to be highly selective and seek industry-leading clients who are committed to long-term, strategic relationships with us.

Extending Our Industry Expertise

We have developed expertise in transferring and servicing more than 630 BPO processes to our operations centers, including more than 410 processes in the insurance industry. This expertise continues to distinguish us from other offshore providers of BPO services and has established our reputation as a leading provider of BPO services. We intend to continue to strengthen our processing capabilities by focusing on the more complex and value-enhancing services that are common to these sectors. We have recently started performing services for the travel sector, which yield many processes that fit our expertise. We intend to selectively identify industries in which we can develop domain expertise and provide a range of outsourcing and transformation services.

Continuing to Focus on Complex Processes

We intend to continue to leverage our industry expertise to provide increasingly more complex services for our clients. As a result of our established and developing industry expertise and knowledge of our clients

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

Utilizing Innovative Approaches in our Service Delivery to Enhance Margin Sustainability

We believe that the increased utilization of outcome and transaction-based pricing models will facilitate the delivery of increased value to our clients while enhancing the sustainability of our margins. Currently, the significant majority of our revenues are billed to our clients on a time and materials basis. We intend to increase the number of processes in which we utilize outcome and transaction-based pricing to align our incentives with our clients, thereby assisting them with variable cost structures, and driving service improvements. The implementation of this change in our pricing model will require the use of acquired or owned intellectual property, methodologies and analytical models and a range of proprietary technology tools and software platforms. Our increased investment in proprietary tools and methodologies may serve to increase our costs in the short run but will allow us to provide services with fewer personnel, which will allow us to become more insulated from ongoing inflation or wage pressures in the longer term.

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 further refine and supplement the innovative methods we use to recruit, train and retain our skilled employees. We intend to continue to focus on recruiting highly qualified employees and to develop our employees leadership skills through specialized programs, rigorous promotion standards, industry-specific training and competitive compensation packages that include incentive-based compensation. We also intend to continue our focus on process excellence by building on our extensive use of Six Sigma and similar methodologies to identify and eliminate inefficiencies, focusing on initiatives to solicit and implement process improvements from employees at all levels and continuing to develop proprietary tools to identify and deliver continued process enhancements. We intend to continue to invest in our operational infrastructure and operations centers in response to our growing client requirements and capability enhancements. During 2010, our new operations centers located in special economic zones in Jaipur and Noida, India became operational and we also commenced operations in Cluj, Romania.

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. On March 1, 2010 we acquired the operations of the American Express Global Travel Service Center (GTSC), a business unit of American Express located in Gurgaon, India and entered into an eight-year contract to provide travel-related BPO services to American Express. On May 1, 2010, we acquired PDMA, developer of the LifePRO® insurance policy administration platform used by approximately 40 insurance companies. We intend to cross-sell our existing suite of outsourcing and transformation services to PDMA clients.

Other Information

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

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

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

The BPO Industry

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

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

Trend towards Offshore Delivery of BPO Services

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

Over the past decade, India and the Philippines have emerged as preferred locations for organizations planning to outsource services ranging from insurance claims processing, payroll processing, medical transcription, customer relationship management to back-office operations such as accounting and data processing, filtering and organization. India currently accounts for the largest share of the offshore BPO services market. Recently, in order to take advantage of multiple language capabilities and large educated talent pools at competitive costs, companies have engaged service providers with operations in other geographies such as Eastern Europe and Latin America.

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Sales and Marketing and Client Management

We market our services to new clients directly through our sales and marketing team and to our existing clients through our client management team. Our sales and marketing team and our client management team operate out of the United States and United Kingdom and are supported by our business development team, which operates out of Noida, India.

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

Our client management team is responsible for managing the overall client relationships, understanding their needs and developing solutions that create value for clients from our suite of outsourcing and transformation services. Each client relationship is assigned a team which consists of members from the client management team, an operations delivery leader, a member of our transformation services group and a member of our technology team. The client management team is responsible for working closely with the delivery team to ensure high levels of client satisfaction and is also responsible for business expansion and revenue growth of their accounts.

Our sales and client 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 on processes to be outsourced to us.

As of December 31, 2010, we had 28 sales and marketing and client 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 client management teams. Our sales and marketing, client 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 client executive 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, client management and business development teams remain actively involved in a project through the execution phase. Supporting each client team is a corporate sponsor, executive steering committee, operations leadership team and, in some cases, a dedicated human resources, technology and infrastructure team.

Clients

We currently have approximately 120 clients. Our largest clients in 2010 were Centrica, Travelers and American Express which together accounted for approximately 41.2% of our total revenues in 2010. Other clients include over sixty of the leading global insurance companies, over fifteen leading global banks and financial services companies, three European utilities companies and three leading transportation services providers. 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 three 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 2010, approximately 41.2% of our total revenues came from three 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 eight years. Agreements for transformation services generally have shorter initial terms. Each agreement is individually negotiated with the client.

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

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

We provide services to American Express under (i) a master services agreement for our outsourcing services, which agreement cannot be terminated by American Express without cause and which provides us with a minimum volume commitment over a period of eight years till February 2018 and thereafter automatically gets renewed year after year for successive twelve month periods unless either party provides a notice of six months prior to the expiration of the initial term and (ii) a master agreement for our transformation services, which agreement may be terminated by American Express without cause upon five days prior written notice.

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

Competition

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

We compete primarily against:

- BPO service companies based in offshore locations, particularly India, such as Genpact Limited (Genpact) and WNS (Holdings) Limited (WNS);

- the BPO divisions of large information technology, or IT, service companies and global BPO services companies located in the United States, such as Accenture, Cognizant Technology Solutions and International Business Machines;

- the BPO divisions of IT service companies located in India such as Infosys BPO (owned by Infosys Technologies Limited), Tata Consultancy Services Limited and Wipro BPO (owned by Wipro Technologies Limited); and

- leading accounting and management consulting firms.

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

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

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

Technology

We have a well-developed international telecommunications capacity to support our business operations. We use an international wide area network from India, the Philippines, the Czech Republic and Romania 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, Jersey City, New Jersey 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, Tata Communications, Verizon, Orange and British Telecom. Currently, we have a bandwidth of over 190 megabits-per-second, or Mbps, in the United States and over 185 Mbps in the United Kingdom, which we believe is adequate for our business. We have implemented multiprotocol label switching connectivity across all processing centers and technology hubs, which should allow seamless transition from one center to the other in case of an outage.

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

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

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

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

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

Process Compliance and Management

We have an independent quality compliance team to monitor, analyze, provide feedback on and report process performance and compliance. In addition, we have a customer experience team to assess and improve end customer experience for all processes. Currently, we have over 290 quality compliance analysts and customer experience analysts.

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We report process performance on B-ProMPT, a web-based application 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, supervisors and other employees. B-ProMPT includes advanced analytics capacity to provide Six Sigma-based process analysis, including trend analysis, distribution analysis and correlation analysis and tracking.

Employees

As of December 31, 2010, we had a headcount of approximately 12,700 individuals, the substantial portion of whom are based in India. We have approximately 200 employees in the United States and United Kingdom, approximately 900 employees in the Philippines and an aggregate of approximately 300 employees in the Czech Republic and Romania. Our employees are not unionized. We have never experienced any work stoppages and believe that our employee relations are good.

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 recruitment. Some of the strategies we have adopted to increase efficiency in our hiring practices include online voice assessment and a centralized hiring center. Our hiring policies focus on identifying high quality employees who demonstrate a high propensity for learning, contribution to client services and growth. Candidates must undergo numerous tests and interviews before we extend offers for employment. We also conduct extensive background checks on candidates, including criminal background checks as required by clients or on a sample basis. In addition, we perform random drug testing on the workforce on a regular basis. In 2010, we received more than 45,000 applications for employment and hired approximately 7,000 new professionals. We also have an employee referral program that provides us with a cost effective way of accessing qualified potential employees.

We offer our professionals competitive compensation packages that include significant incentive-based compensation and offer a variety of benefits, including free transport to and from home in certain circumstances, subsidized meals and free access to recreational facilities that are located within our operations centers. Our turnover rate for billable employees employees who execute business processes for our clients following the completion of our six-month probationary period has increased from approximately 22.6% for the year ended December 31, 2009 to approximately 34.4% for the year ended December 31, 2010. The increased turnover rate is largely attributable to the increase in demand for professionals as a result of an improved economic environment in India and the Philippines where a substantial portion of our professionals are based. However, as competition in our industry increases, our turnover rate could increase further. See Item 1A. Risk Factors Risks Related to Our Business We may fail to attract and retain enough sufficiently trained professionals 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, 2010, we had over 250 certified trainers. Our trainers work with professionals in our recruitment, operations and quality control teams to create an end-to-end process for value addition, skill evaluation, skill enhancement and certification. We also use training to provide continuity by linking skill assessment at the point of recruitment to subsequent assessment and on-the-job training.

We customize our training design to country, client, industry and service, closely collaborating with the client throughout the training process. Approximately 4,800 employees received training on the insurance industry and processes at an insurance academy established by us in 2009. Training for new employees includes culture, voice and accent training. We also have ongoing training that includes refresher training programs and personality development programs. In addition, we develop our employees leadership skills through various capability development programs, other talent identification and performance management mechanisms and significant monetary and non-monetary incentives. In 2010, we launched an e-learning platform for web-based in-house programs for associates and trained over 4,000 associates across a range of educational programs during the year. We have also created career development programs for our middle and junior management employees that help them define and identify their career paths within the company. In 2010, we launched the EXL School of Management Development and provided training to over 1,000 of our junior and middle managers.

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 administrator insurance services from India in 45 states of the United States and from the Philippines in 20 states of the United States, having been licensed or exempted from, or not subject to, licensing in each of those states, which may help make us an attractive service provider to future clients.

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

Our operations are also subject to compliance with a variety of other laws, federal and state 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 HITECH Act of 2009, 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 some of our Indian operations centers. The tax benefit for some of our operations centers in India has already expired and is set to expire for some of our other operations centers on April 1, 2011. Our operations centers in Noida and Jaipur, India, which were established in special economic zones during 2010, are eligible for tax incentives until 2025. We also benefit from certain tax incentives for our operations in the Philippines. See Item 1A. Risk Factors Risks Related to the International Nature of our Business Our financial condition could be negatively affected if foreign governments reduce or withdraw tax benefits and other incentives currently provided to companies within our industry, or if the same are not available for other reasons. Our subsidiaries in India are also subject to certain currency transfer restrictions. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Foreign Exchange and Income Taxes.

ITEM 1A. Risk Factors
Risks Related To Our Business

We have a limited number of clients and provide services to few industries. In 2010, approximately 41.2% of our total revenues came from three 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 2010, our three largest clients, Centrica, Travelers and American Express, accounted for approximately 41.2% of our total revenues. We generated 15.2% of our total revenues in 2010 from Centrica, 14.4% of our total revenues in 2010 from Travelers and 11.6% of our total revenues in 2010 from American Express. We provide services to Centrica under an agreement that expires in April 2012. Centrica has the option to extend the contract for two annual extension periods. This contract can be terminated by Centrica without cause upon three months prior notice and payment of a breakup fee. We provide services to Travelers under a services agreement and work assignments and orders generated thereunder. Although the services agreement does not have a fixed term, the work assignments and work orders expire in December 2013 and renew every year thereafter unless either party elects not to renew within a specified period before the next renewal date. Travelers may terminate the services agreement, or any work assignment or work order, without cause upon 60 days prior notice. We provide services to American Express under a separate agreement for each of our BPO services and our transformation services. The agreement for transformation services can be terminated by American Express without cause upon five days prior written notice. We expect that a significant portion of our total revenues will continue to be contributed by a limited number of large clients in the near future. The loss or financial difficulties of either of our large clients would have a material adverse effect on our business, results of operations, financial condition and cash flows.

General economic and business conditions could negatively affect our business in multiple ways.

The recent global economic downturn adversely impacted companies in the industries to which we provide services including the banking, financial services and insurance industries. In 2010, approximately 61.7% of our total revenues were derived from clients in those industries, including 52.2% of our total revenues that were derived from clients in the insurance industry. Our business largely depends on continued demand for our services from clients and potential clients in these industries. Adverse developments in these industries could further unfavorably affect our business. In particular, we currently derive, and are likely to continue to derive, a significant portion of our revenues from clients located in the United States. Any future decreases in the general level of economic activity, such as decreases in business and consumer spending, could result in a decrease in demand for our services, particularly our transformation services, thus reducing our revenue. Continued high unemployment rates in the United States could also adversely affect the demand for our services. Other developments in response to economic events, such as consolidations, restructurings or reorganizations, particularly involving our clients, could also cause the demand for our services to decline.

While economic conditions have recently improved, that trend may not continue and the extent of the current economic improvement is unknown. Any future disruptions in the commercial credit markets may impact liquidity in the global credit market as greatly, or even more, than in recent years, and 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. Future turbulence in global markets and economies may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our clients, and 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. Changes in global economic conditions could also shift demand to services for which we do not have competitive advantages, and this could negatively affect the amount of business that we are able to obtain.

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

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

In other countries, such as the United Kingdom, which comprised 24.3% of our total revenues in 2010, there has also been some negative publicity and concern expressed regarding the possible effect of job losses caused by outsourcing. Legislation introduced in the United Kingdom (consolidating past case law) in 2006 provides that if a company transfers or outsources its business or a part of its business to a transferee or a service provider, the employees who were employed in such business are entitled to become employed by the transferee or service provider on the same terms and conditions as they had been employed before the transfer. The dismissal of such employees as a result of such transfer of business is deemed unfair dismissal and entitles the employees to compensation. As a result, we may become liable for redundancy payments to the employees of our clients in the United Kingdom who outsource business to us. We are generally indemnified in our existing contracts with clients in the United Kingdom to the extent we incur losses or additional costs due to the application of this legislation to us, and we intend to obtain indemnification in future contracts with clients. However, if we are unable to obtain indemnification in future contracts with clients, we may be liable under any agreements we enter into in the future with United Kingdom clients. Similar legislation has also been enacted in certain other European jurisdictions.

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

Most of our client contracts may be terminated by our clients without cause and do not commit our clients to provide us with a specific volume of business. Any failure to meet a client s expectations could result in a cancellation or non-renewal of a contract or a decrease in business provided to us. We may not be able to replace any client that elects to terminate or not renew its contract with us, which would reduce our revenues. For example, we provide services to Centrica under an agreement that can be terminated by Centrica without cause upon three months prior notice and payment of a breakup fee, we provide services to Travelers under a services agreement that Travelers may terminate without cause upon 60 days prior notice and we provide transformation services to American Express under an agreement that can be terminated by American Express without cause upon five days prior written notice. We generated 15.2% of our total revenues in 2010 from Centrica, 14.4% of our total revenues in 2010 from Travelers and 11.6% of our total revenues in 2010 from American Express. The termination of any of these contracts with or without cause could have a material adverse impact on the predictability of our expected revenue stream.

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

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

The BPO industry is very labor intensive and our success depends to a significant extent on our ability to attract, hire, train and retain qualified employees, including our ability to attract employees with needed skills in the geographic areas in which we operate. The industry, including us, experiences high employee turnover. In 2010, our turnover rate for billable employees was approximately 34.4%. 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 2010, we incurred approximately $1.7 million on recruitment and approximately $1.0 million on training costs due to employee turnover, thereby increasing our costs and reducing our profit margins for that period by $2.7 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.

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

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

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

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

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

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

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

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

Most of our BPO contracts use a pricing model that provides for hourly or annual billing rates. Industry pricing models are evolving, however, and we anticipate that clients may increasingly request transaction-based or other pricing models. 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.

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

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

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

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

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

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

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

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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 Vikram Talwar, our Executive Chairman until March 31, 2011 and our non-Executive Chairman thereafter, or of Rohit Kapoor, our President and Chief Executive Officer, 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 twelve operations centers in India and one each in the Philippines, the Czech Republic, the U.S. and Romania. Our headcount has increased from approximately 1,800 on December 31, 2002 to approximately 12,700 on December 31, 2010. We expect to develop and improve our internal systems in the locations where we operate in order to address the anticipated growth of our business. We are in the process of establishing new operation centers in India and are also continuing to look for operation centers at additional locations outside of India, the Philippines, the Czech Republic, the U.S. and Romania. We believe expanding our geographic base of operations will provide higher value to our clients by decreasing the risks of operating from a single country (including potential shortages of skilled employees, increases in wage costs during strong economic times and currency fluctuations), while also giving our clients access to a wider talent pool and establishing a base in countries that may be competitive in the future. However, we may not be able to effectively manage our infrastructure and employee expansion, open additional operations centers or hire additional skilled employees as and when they are required to meet the ongoing needs of our clients, and we may not be able to develop and improve our internal systems. Our inability to execute our growth strategy, to ensure the continued adequacy of our current systems or to manage our expansion effectively could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may engage in strategic acquisitions or transactions, which could have a material adverse effect on our business, results of operations and financial condition.

As part of our business strategy, we intend to continue to selectively consider acquisitions or investments, some of which may be material. Through the acquisitions we pursue, we may seek opportunities to expand the scope of our existing services we provide, add new clients or to enter new geographic markets. We have made acquisitions in the past, including our acquisition in 2009 of the back office operations of Schneider S.R.O. in the Czech Republic and our acquisition in 2010 of the American Express Global Travel Services Center located in Gurgaon, India and PDMA, developer of the LifePRO® insurance policy administration platform. There can be no assurance that we will successfully identify suitable candidates in the future for strategic transactions at acceptable prices, have sufficient capital resources to finance potential acquisitions or be able to consummate any desired transactions. Our failure to close transactions with potential acquisition targets for which we have invested significant time and resources could have a material adverse effect on our financial condition and cash flows.

Acquisitions, including completed 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 or valuable customers, 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 could also experience financial or other setbacks if transactions encounter unanticipated problems, including problems related to execution, integration or underperformance relative to prior expectations. Our management may not be able to successfully integrate any acquired business into our operations or maintain our standards, controls and policies, which could have a material adverse effect on our business, results of operations and financial condition. Consequently, any acquisition we do complete may not result in long-term benefits to us.

Following the completion of an acquisition, we may have to rely on the seller to provide administrative and other support, including financial reporting and internal controls, to the acquired business for a period of time. There can be no assurance that the seller will do so in a manner that is acceptable to us.

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

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

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

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

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

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

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

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

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

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

Our dependence on our offshore operations centers requires us to maintain active voice and data communications among our operations centers, our international technology hubs and our clients offices.

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

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

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

Although we believe that we are not infringing on the intellectual property rights of others, claims may nonetheless be successfully asserted against us in the future. The costs of defending any such claims could be significant, and any successful claim may require us to modify, discontinue or rename any of our services. Any such changes may have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

Oak Hill Capital Partners and its affiliates, and 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, and our Executive Chairman, Vikram Talwar, and our President and Chief Executive Officer, Rohit Kapoor. As of December 31, 2010, Oak Hill Capital Partners L.P. and certain of its affiliates beneficially owned 10,542,504 shares (or 35.8%) of our outstanding common stock; Mr. Talwar and certain trusts for his benefit and that of his family collectively beneficially owned 1,069,318 shares (or 3.6%) of our outstanding common stock; and Mr. Kapoor and certain trusts for his benefit and that of his family collectively beneficially owned 1,777,647 shares (6.0%) 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 choose to expand operations to additional countries and may not be successful in maintaining our current profit margins in our new locations due to factors beyond our control.

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

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

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

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

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

Risks Related to the International Nature of our Business

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

Under the Income-Tax Act, 1961 of India, we have benefited from a holiday from Indian corporate income taxes applicable under the Software Technology Parks of India or STPI scheme. As a result, our service operations have to date been subject to relatively lower tax liabilities. We incurred lower income tax expense in 2010 as a result of the STPI tax holiday, compared to approximately $4.2 million that we would have additionally incurred if the STPI tax holiday had not been available for that period (without accounting for double taxation treaty set-offs). The STPI tax holiday in respect of some of our operations centers has already expired and is set to expire for some of our other operations centers in India on April 1, 2011. Consequently, for operations centers that are not eligible for the STPI tax holiday, our tax expense will materially increase and our after-tax profitability will materially decrease. During 2010, we have established operations centers in Noida and Jaipur, India in special economic zones that are eligible for tax incentives for services provided from such locations until 2025 under the Special Economic Zones Act, 2005. If we are not able to establish or acquire operations in India that are located in special economic zones, our tax expense will materially increase and our after-tax profitability will materially decrease.

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

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

U.S. and Indian transfer pricing regulations require that any international transaction involving associated enterprises be at an arm s-length price. Transactions among the Company s subsidiaries and the Company may be required to satisfy such requirements. Accordingly, the Company determines the pricing among its associated enterprises on the basis of detailed functional and economic analysis involving benchmarking against transactions among entities that are not under common control. The tax authorities have jurisdiction to review this arrangement and in the event that they determine that the transfer price applied was not appropriate, the

Company may incur increased tax liability, including accrued interest and penalties. The Company is currently involved in disputes with the Indian tax authorities over the application of some of its transfer pricing policies for past years. Please see note 16 to our consolidated financial statements for details.

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 or applied toward outstanding disputes at such time 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.

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

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

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

Although a substantial portion of our revenues are denominated in U.K. pounds sterling (24.3% in 2010) or U.S. dollars (72.0% in 2010), most of our expenses (58.4% in 2010) 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. 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 could materially and adversely affect our profitability. We are subject to legal restrictions on hedging activities as well as the convertibility of currencies in India. This could limit our ability to use cash generated in one country in another country and could limit our ability to hedge our exposures. Finally, our hedging policies only provide near term protection from exchange rate fluctuations.

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

Terrorist attacks and other acts of violence or war, including those involving India, the Philippines, the United States or other countries, may adversely affect worldwide financial markets and could potentially lead to economic recession, which could adversely affect our business, results of operations and financial condition. These events could adversely affect our clients levels of business activity and precipitate sudden significant changes in regional and global economic conditions and cycles. These events also pose significant risks to our people and to our operations centers. South Asia has, from time to time, experienced instances of civil unrest and

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hostilities among neighboring countries, including India, Pakistan and China. In recent years there have been several instances of military confrontations along the Indo-Pakistan border. There continues to be potential for hostilities between India and Pakistan due to recent terrorist activities and the geopolitical climate along the border. Although this has not been the case to date, such political tensions could create a perception that there is a risk of disruption of services provided by India-based companies, which could have a material adverse effect on the market for our services. Furthermore, if India were to become engaged in armed hostilities, particularly hostilities that were protracted or involved the threat or use of nuclear weapons, we might not be able to continue to operate. Our insurance policies may not insure us against losses and interruptions caused by terrorist attacks and other acts of violence or war.

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

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

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

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

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

The choice of India as an outsourcing destination and our financial performance may be adversely affected by general economic conditions and economic and fiscal policy in India, including changes in exchange rates and controls, interest rates and taxation policies, as well as social stability and political, economic or diplomatic developments affecting India in the future. In particular, India has experienced significant economic growth over the last several years, but faces major challenges in sustaining that growth in the years ahead. These challenges include the need for substantial infrastructure development and improving access to healthcare and education. Our ability to recruit, train and retain qualified employees, develop and operate our operations centers, and attract and retain clients could be adversely affected if India does not successfully meet these challenges.

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

The Philippines has experienced significant inflation, currency declines and shortages of foreign exchange. We are exposed to the risk of 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 experienced civil unrest, terrorism and political turmoil, resulting in temporary work stoppages and telecommunication or other technology outages. These instabilities and any adverse changes in the political environment in the Philippines could increase our operational costs, increase our exposure to legal and business risks and make it more difficult for us to operate our business in the Philippines.

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

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

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

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

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

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our clients could be interrupted or delayed significantly. Our insurance coverage may not be sufficient to cover all of our potential losses. In addition, although all of our operations centers have access to other power sources, disaster management facilities in India may not be adequate to protect against potential losses. In addition, clients may terminate their contracts with us if we cannot resume providing services quickly enough. As a result, a natural disaster in India or the Philippines could have a material adverse effect on our business, results of operation and financial condition.

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

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

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

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

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

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

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

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ITEM 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

Our corporate headquarters is located in New York, New York. We have twelve operations centers in India, one in Manila, Philippines, one in Olomouc, Czech Republic and one in Cluj, Romania with an aggregate area of approximately 968,889 sq.ft. and a current installed capacity of approximately 9,243 agent workstations that operate on an uninterrupted 24/7 basis and are available to be staffed on a three-shift basis. We also have an operations center in Indianapolis, Indiana and a sales office in London, U.K. Our networking and telecommunication hubs are located in Sunnyvale, California, Jersey City, New Jersey and New York, New York. All of our operations centers are equipped with fiber connectivity and have access to other power sources. Substantially, all of our operations centers are leased under long-term leases with varying expiration dates, except for an operation center in Pune, India with an approximate area of 86,361 sq. ft. and containing 1,141 agent workstations which we own. We do not have the option under our present lease agreements to buy any of these properties should we desire to do so except for our operations center in a special economic zone in Noida, India.

ITEM 3. Legal Proceedings

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

ITEM 4. (Removed and Reserved)

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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.

	Price Range	
Calendar Period	**High**	**Low**
2010		
First Quarter	$ 19.51	$ 15.64
Second Quarter	$ 19.00	$ 14.61
Third Quarter	$ 20.00	$ 15.96
Fourth Quarter	$ 22.05	$ 18.36
2009		
First Quarter	$ 9.49	$ 5.86
Second Quarter	$ 11.40	$ 8.10
Third Quarter	$ 14.99	$ 9.75
Fourth Quarter	$ 18.39	$ 13.43

As of February 28, 2011, there were 24 holders of record of our outstanding common stock.

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

Issuer Purchases of Equity Securities

During the three months ended December 31, 2010, the Company did not acquire any shares of common stock from employees in connection with withholding tax payments related to the vesting of restricted stock. During the year ended December 31, 2010, the Company acquired 5,472 shares of common stock from employees in connection with withholding tax payments related to the vesting of restricted stock for a total consideration of $92,500. The purchase price of $16.96 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.

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Equity Compensation Plan Information

The following table provides information as of December 31, 2010 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 13 to our consolidated financial statements.

Plan Category	Number of Securities to be Issued Upon Exercise/Vesting of Outstanding Equity Awards	Weighted Average Exercise Price of Outstanding Options	Number of Securities Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans that have been approved by security holders	4,028,317	$ 12.17	3,430,472
Equity compensation plans not approved by security holders			
Total	4,028,317	$ 12.17	3,430,472

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Performance Graph

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

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ITEM 6. Selected Financial Data

The following table sets forth our selected consolidated historical financial data as of the dates and for the periods indicated. Our selected consolidated financial data set forth below as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010 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, 2008, 2007 and 2006 and for each of the years ended December 31, 2007 and 2006 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 2010, 2009 and 2008 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,				
	2010	2009	2008	2007	2006 (Unaudited)
	(in millions, except share and per share data)				
Consolidated Statement of Operations Data:					
Total revenues[1]	$ 252.8	$ 191.0	$ 181.7	$ 152.0	$ 98.7
Cost of revenues (exclusive of depreciation and amortization)[2]	151.3	109.4	112.4	100.1	62.6
Gross profit	101.5	81.6	69.3	51.9	36.1
Selling, general and administrative expenses[3]	59.1	45.8	42.4	37.9	23.4
Depreciation and amortization expenses[4]	15.9	11.4	11.2	9.2	7.1
Income from continuing operations	26.5	24.4	15.7	4.8	5.6
Total other income/(expense)	5.6	(4.9)	(5.9)	11.8	0.8
Income from continuing operations before income taxes	32.1	19.5	9.8	16.6	6.4
Income tax provision/(benefit)	5.5	3.7	(1.3)	(1.0)	(0.3)
Income from continuing operations	26.6	15.8	11.1	17.6	6.7
Income/(loss) from discontinued operations, net of taxes		(0.1)	3.3	9.4	7.3
Net income	26.6	15.7	14.4	27.0	14.0
Dividend and accretion to preferred stock					(0.6)
Net income to common stockholders	$ 26.6	$ 15.7	$ 14.4	$ 27.0	$ 13.4
Earnings per share:					
Basic:					
Continuing operations	$ 0.91	$ 0.55	$ 0.39	$ 0.62	$ 0.27
Discontinued operations	$	$	$ 0.11	$ 0.33	$ 0.32
Diluted:					
Continuing operations	$ 0.88	$ 0.54	$ 0.38	$ 0.60	$ 0.26
Discontinued operations	$	$	$ 0.11	$ 0.32	$ 0.32
Weighted average number of common shares outstanding:					
Basic	29,281,364	28,963,770	28,811,040	28,480,033	22,863,539
Diluted	30,388,520	29,417,910	29,212,045	29,191,199	23,033,266

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	Year ended December 31,				
	2010	2009	2008 (in millions)	2007	2006
Consolidated Statement of Financial Position Data:					
Cash and cash equivalents	$ 111.2	$ 132.2	$ 112.2	$ 101.4	$ 84.7
Working capital(5)	123.6	139.5	118.8	119.6	85.0
Total assets	305.7	249.6	212.0	218.4	169.2
Other long term obligations(6)	6.4	5.6	0.2	0.3	0.2
Stockholders equity	$ 248.5	$ 205.7	$ 171.3	$ 174.0	$ 127.2

(1) Revenues include reimbursable expenses of $11.8 million in 2010, $9.6 million in 2009, $11.8 million in 2008, $7.1 million in 2007 and $4.4 million in 2006. Revenues also include contract-termination fee of $5.1 million in 2009 and $0.4 million in 2008.

(2) Cost of revenues for the years ended December 31, 2010, 2009, 2008, 2007 and 2006 include $1.6 million, $1.4 million, $1.1 million, $1.1 million and $0.5 million, respectively, as non-cash amortization of stock compensation expense relating to the issuance of equity awards to employees directly involved in providing services to our clients.

(3) SG&A expenses for the years ended December 31, 2010, 2009, 2008, 2007 and 2006 include $6.9 million, $5.7 million, $4.2 million, $3.2 million and $1.5 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, 2010, 2009, 2008, 2007 and 2006 includes $2.0 million, $0.2 million, $0.5 million, $1.6 million and $1.2 million, respectively, as amortization of intangibles.

(5) Working capital means total current assets less total current liabilities.

(6) Other long-term obligations include ASC No. 740-10 reserves, retirement benefits 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 leading provider of outsourcing and transformation services focused on providing a competitive edge to our clients. Our outsourcing services provide front-, middle- and back-office process outsourcing services for our primarily U.S.-based and U.K.-based clients. Outsourcing services involve the transfer to us of select business operations of a client, such as claims processing, finance and accounting and customer service, after which we administer and manage the operations for our client on an ongoing basis. We also offer a number of transformation services that include decision analytics, risk and financial management and operations and process excellence services. These transformation services help our clients improve their operating environments through cost reduction, enhanced efficiency and productivity initiatives, and improve the risk and control environments within our clients operations whether or not they are outsourced to us. A significant portion of our business relates to processes that we believe are integral to our clients operations, and the close nature of our relationships with our clients assists us in developing strong strategic long-term relationships with them. We serve primarily the needs of Fortune Global 500 and Fortune 1000 companies in the insurance, utilities, banking and financial services, transportation and logistics and travel sectors.

We market our services directly through our sales and marketing and client management teams, which operate out of the United States and the United Kingdom, and our business development team, which operates out of Noida, India. We currently operate twelve operations centers in India, including two new operations centers in Jaipur and Noida, India, which became operational in July 2010 and November 2010, respectively, one operations center in Cluj, Romania which became operational in February 2010, one operations center in the Philippines, one operations center in Olomouc, the Czech Republic and one operations center in Indianapolis, Indiana. We are also in the process of expanding some of our operations centers in India.

On March 1, 2010, we acquired the operations of GTSC, a business unit of American Express located in Gurgaon, India, that provides the travel-related business process outsourcing services of American Express. The purchase price of the transaction, which was paid in cash, was approximately $29.1 million. Through this transaction, we have started to provide services to the travel sector, deepened our relationship with a significant client and expanded our capability set in analytics, exception processing and transaction processing.

On May 1, 2010, we acquired a 100% stake in PDMA, developer of the LifePRO® insurance policy administration platform used by approximately 40 insurance companies. The purchase price for PDMA, which was paid in cash, was approximately $14.1 million (including cash acquired of $1.0 million), net of working capital adjustments. The PDMA acquisition has provided us a policy administration platform for our insurance clients along a wide range of products.

Revenues

We generate revenues principally from contracts to provide outsourcing and transformation services. For the year ended December 31, 2010, we had total revenues of $252.8 million compared to total revenues of $191.0 million in 2009, an increase of $61.8 million or 32.3%. Revenues from outsourcing services were higher by $44.6 million in 2010 when compared to 2009 (excluding the receipt of a one-time contract termination fee of $5.1 million in 2009), primarily due to revenues of $29.1 million from new clients, including the acquisitions of

GTSC and PDMA, net volume increases within existing clients of approximately $12.5 million and an increase of $3.0 million, primarily due to the appreciation of the Indian rupee against the U.S. dollar, excluding the impact of currency movements on the acquired businesses. Revenues from transformation services were higher by $22.3 million in 2010 when compared to 2009, primarily due to a combination of increased revenues in recurring or annuity decision analytics services and an increase in project-based engagements in our decision analytics, risk and financial management and operations and process excellence practices.

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

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

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

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

We serve clients mainly in the United States and the United Kingdom, with these two regions generating approximately 72.0% and 24.3%, respectively, of our total revenues for the year ended December 31, 2010 and approximately 63.8% and 33.9%, respectively, of our total revenues for the year ended December 31, 2009.

We derive a significant portion of our revenues from a limited number of large clients. In the years ended December 31, 2010 and 2009, our total revenues from our three largest clients were $104.2 million and $81.3 million, respectively, accounting for 41.2% and 42.6% of our total revenues, respectively, during these periods.

We provide services to Centrica, which represented $38.5 million, or 15.2%, of our total revenues for the year ended December 31, 2010 and $39.2 million, or 20.5% of our total revenues for the year ended December 31, 2009, under an agreement that is scheduled to expire in April 2012. Centrica may terminate the agreement without cause upon three months prior notice and payment of a breakup fee.

We provide services to Travelers, which represented $36.3 million, or 14.4%, of our total revenues for the year ended December 31, 2010 and $25.1 million, or 13.2% of our total revenues for the year ended

December 31, 2009, under a services agreement. Travelers may terminate the services agreement, or any work assignment or work order thereunder, each of which expires in December 2013, without cause upon 60 days prior notice.

We provide services to subsidiaries of American Express Company (American Express) under (i) a master services agreement for our outsourcing services, which agreement cannot be terminated by American Express without cause and which provides us with a minimum volume commitment over a period of eight years and (ii) a master agreement for our transformation services, which agreement may be terminated by American Express without cause upon five days prior written notice. Our aggregate revenues from outsourcing services and transformation services to American Express represented $29.3 million, or 11.6% of our total revenues for the year ended December 31, 2010 and $4.5 million or 2.3% of our total revenues for the year ended December 31, 2009.

We derived revenues from twenty-one and nineteen new clients for our services in the years ended December 31, 2010 and 2009, respectively. Although we are increasing and diversifying our client base, we expect in the near future that a significant portion of our revenues will continue to be contributed by a limited number of large clients.

Revenues also include amounts representing reimbursable expenses that are billed to and reimbursed by our clients and typically include telecommunication and travel-related costs. The amount of reimbursable expenses that we incur, and any resulting revenues, can vary significantly from period to period depending on each client s situation and on the type of services provided. For the years ended December 31, 2010 and 2009, 4.7% and 5.0%, respectively, of our total 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, Philippine peso/U.S. dollar and U.K. pound sterling/U.S. dollar foreign currency exposure.

Our management has observed in recent periods a shift in industry pricing models toward transaction-based pricing and other pricing models. We believe this trend will continue and we have begun to use transaction-based and other pricing models with some of our current clients and are seeking to move certain other clients from a billing rate model to a transaction-based or other pricing model. Such models place the focus on operating efficiency in order to maintain our operating margins. In addition, we have also observed that prospective larger clients are entering into multi-vendor relationships with regard to their outsourcing needs. We believe that the trend toward multi-vendor relationships will continue. A multi-vendor relationship allows a client to seek more favorable pricing and other contract terms from each vendor, which can result in significantly reduced operating margins from the provision of services to such client for each vendor.

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 are 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 and in our other operating centers globally to service additional business and as wages continue to increase in India. In particular, we expect training costs to continue to increase as we continue to add staff to service new clients. There is significant competition for professionals with skills necessary to perform the services we offer to our clients. As our existing competitors continue to grow, and as new competitors enter the market, we expect competition for skilled professionals in each of these areas to continue to increase, with corresponding increases in our cost of revenues to reflect increased compensation levels for such professionals. However, a significant portion of our client contracts include adjustments towards inflation to our billing rates year over year which partially offset such increase in cost of revenues. We also expect our cost of revenues to increase due to employee turnover resulting in higher recruitment and training costs. See Item 1A Risk Factors Employee wage increases may prevent us from sustaining our competitive advantage and may reduce our profit margin.

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

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 client management personnel, travel and brand building. We expect that sales and marketing expenses will continue to increase as we invest in our front-end sales and client 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. However, our SG&A as a percentage of revenues has declined from 24.0% in 2009 to 23.4% in 2010. SG&A expenses also includes professional fees, which represent the costs of third party legal, tax, accounting and other advisors, bad debt allowance and 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. As we add facilities, including our three new operations center in Cluj Romania, Noida, India and Jaipur, India which became operational in 2010, we expect that depreciation expense will increase, reflecting additional investments in equipment such as desktop computers, servers and other infrastructure. Amortization of intangible assets acquired is included in depreciation and amortization. Amortization of intangible assets has increased substantially in 2010 due to our recent acquisitions of GTSC and PDMA and we expect this to increase further as we pursue strategic relationships and acquisitions.

Foreign Exchange

Exchange Rates

We report our financial results in U.S. dollars. However, a significant portion of our total revenues is earned in U.K. pounds sterling (24.3% and 33.9%, respectively, of our total revenues for the year ended December 31, 2010 and 2009) while a significant portion of our expenses are incurred and paid in Indian rupees (58.4% and 57.1%, respectively, of our total costs for the year ended December 31, 2010 and 2009) and the Philippine peso (5.9% and 6.0%, respectively, of our total costs for the year ended December 31, 2010 and 2009). The exchange rates among the Indian rupee, the Philippine peso, 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 and U.K. pound sterling appreciate or depreciate against the U.S. dollar. See notes 2 and 7 to our consolidated financial statements and Item 7A Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk.

Currency Regulation

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

Income Taxes

The fiscal year under the Indian Income Tax Act ends on March 31. Certain of our operations centers in India qualify for an exemption from corporate tax under section 10A or 10B of the Indian Income Tax Act. This exemption is available for a period of ten consecutive years beginning with the financial year in which the operations center begins to manufacture or produce eligible goods and services and expires on April 1, 2011. The tax holiday period for some of our operations centers has already expired and is set to expire for some of our other operations centers on April 1, 2011. Therefore, any profits generated from the services provided from such operations centers will be fully taxable after that date. As a result of the expiration of the tax holiday period during 2011, our tax expense will significantly increase in and after 2011.

During 2010, we have established operations centers in Noida and Jaipur, India in special economic zones that are eligible for tax incentives for services provided from such locations until 2025 under the Special Economic Zones Act, 2005.

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.

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.

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

Revenues under time-and-material contracts are recognized as the services are performed. Revenues are 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 markup. Revenues are recognized on unit-price based contracts based on the number of specified units of work (such as the number of email 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. Revenues are recognized net of any service credits that are due to a client. We have experienced minimal service credits and penalties to date.

Revenues from software licensing arrangements are recognized at the later of time of delivery or expiration of significant termination rights. Revenues from fixed-term maintenance and support contracts are recognized ratably on a monthly basis over the period of the contract. Revenues from contracts for software modification are generally fixed price contracts and are recognized under the proportional performance method as described below.

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Revenues are 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 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.

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

Goodwill, Intangible Assets and Long-lived Assets

Accounting Standards Codification (ASC) topic 850, *Business Combinations* (ASC No. 805), requires that the purchase method of accounting be used for all business combinations. The guidance specifies criteria as to intangible assets acquired in a business combination that must be recognized and reported separately from goodwill. In accordance with ASC topic 350, *Intangibles Goodwill and Other* (ASC No. 350), all assets and liabilities of the acquired businesses including goodwill are assigned to reporting units. We evaluate goodwill for impairment at least annually, or as circumstances warrant. When determining the fair value of our reporting units, we utilize various assumptions, including projections of future cash flows. Any adverse changes in key assumptions about our businesses and their prospects or an adverse change in market conditions may cause a change in the estimation of fair value and could result in an impairment charge.

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

Stock-based Compensation

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

Derivative Instruments and hedging activities

In the normal course of business, we actively look to mitigate the exposure of foreign currency market risk by entering into various hedging instruments, authorized under 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 also have exposure in Philippine pesos, Czech koruna and other local currencies where we operate. We use derivative instruments for the purpose of mitigating the underlying exposure from foreign currency fluctuation risks associated with forecasted transactions denominated in certain foreign currencies and to minimize earnings and cash flow volatility associated with the changes in foreign currency exchange rates and not for speculative trading purposes.

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

We also use derivatives consisting of foreign currency exchange contracts not designated as hedging instruments under ASC No. 815 to hedge intercompany balances and other monetary assets or liabilities denominated in currencies other than the functional currency. Changes in the fair value of these derivatives are recognized in the consolidated statements of income and are included in foreign exchange gain/(loss).

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

We evaluate hedge effectiveness at the time a contract is entered into as well as on an ongoing basis. If during this time, a contract is deemed ineffective, the change in the fair value is recorded in the consolidated statements of income and is included in foreign exchange gain/(loss). For hedge relationships that are discontinued because the forecasted transaction is not expected to occur by the end of the originally specified period, any related derivative amounts recorded in equity are reclassified to earnings.

Income Taxes

We utilize the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition, deferred tax assets and liabilities are recognized in respect of future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases and operating losses carried forward, if any. Deferred tax assets and liabilities are measured using the anticipated tax rates for the years in which such temporary differences are expected to be recovered or settled. We recognize the effect of a change in tax rates on deferred tax assets and liabilities during the period in which the new tax rate was enacted or the change in tax status was filed or approved. Deferred tax assets are recognized in full, subject to a valuation allowance that reduces the amount recognized to that which is more likely than not to be realized. In assessing the likelihood of realization, we consider estimates of future taxable income. With respect to any entity that benefits from a corporate tax holiday, deferred tax assets or liabilities for existing temporary differences are recorded only to the extent such temporary differences are expected to reverse following the expiration of the tax holiday.

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We also evaluate potential exposures related to tax contingencies or claims made by the tax authorities in various jurisdictions in order to determine whether a reserve may be required. A reserve is recorded if we believe that a loss is more likely than not to occur and if the amount of such loss can be reasonably estimated. Such reserves are based on estimates and, consequently, are subject to changing facts and circumstances, including the progress of ongoing audits, changes in case law and the passage of new legislation. We believe that we have established adequate reserves to cover any potential additional tax assessments.

We generally anticipate that we will indefinitely reinvest the undistributed earnings of our foreign subsidiaries or have the ability to repatriate in a tax-free manner. Accordingly, we do not accrue any material income, distribution or withholding taxes that would otherwise arise if such earnings were repatriated in a taxable manner.

We employ a two-step process for recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining, based on the technical merits, that the position will, more likely than not, be sustained upon examination. The second step is to measure the tax benefit as the largest amount of the tax benefit that has a greater than 50% likelihood of being realized upon settlement. Our provision for income tax expense also takes into account any interest or penalties related to unrecognized tax benefits.

Retirement Benefits

We provide our employees in India and the Philippines with benefits under a defined benefit plan, which we refer to as the Gratuity Plan. The Gratuity Plan provides a lump sum payment to vested employees on retirement or on termination of employment in an amount based on the respective employee s salary and years of employment with us. We determine our liability under the Gratuity Plan by actuarial valuation using the projected unit credit method. Under this method, we determine our liability based upon the discounted value of salary increases until the date of separation arising from retirement, death, resignation or other termination of services. Critical assumptions used in measuring the plan expense and projected liability under the projected unit credit method include the discount rate, expected return on assets and the expected increase in the compensation rates. We evaluate these critical assumptions at least annually. If actual results differ significantly from our estimates, our gratuity expense and our results of operations could be materially impacted.

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Results of Operations

The following table summarizes our results of operations:

	Year ended December 31,		
	2010	2009	2008
		(in million)	
Revenues[1]	$ 252.8	$ 191.0	$ 181.7
Cost of revenues (exclusive of depreciation and amortization)[2]	151.3	109.4	112.4
Gross profit	101.5	81.6	69.3
Operating expenses:			
General and administrative expenses[3]	40.3	31.9	31.1
Selling and marketing expenses[3]	18.8	13.9	11.3
Depreciation and amortization expenses[4]	15.9	11.4	11.2
Total operating expenses	75.0	57.2	53.6
Income from continuing operations	26.5	24.4	15.7
Other income/(expense):			
Foreign exchange gain/(loss)	4.2	(5.9)	(9.4)
Interest and other income	1.4	1.0	3.5
Income from continuing operations before income taxes	32.1	19.5	9.8
Income tax provision/(benefit)	5.5	3.7	(1.3)
Income from continuing operations	26.6	15.8	11.1
Income/(Loss) from discontinued operations, net of taxes		(0.1)	3.3
Net income	$ 26.6	$ 15.7	$ 14.4

(1) Revenues include reimbursable expenses of $11.8 million in 2010, $9.6 million in 2009 and $11.8 million in 2008. Revenues also include contract termination fees of $5.1 million in 2009 and $0.4 million in 2008.

(2) Cost of revenues includes $1.6 million, $1.4 million and $1.1 for the years ended December 31, 2010, 2009 and 2008, respectively, as non-cash amortization of stock compensation expense relating to the issuance of equity awards to employees directly involved in providing services to our clients as described in note 13 to our consolidated financial statements.

(3) General and administrative expenses and selling and marketing expenses include $6.9 million, $5.7 million and $4.2 million for the years ended December 31, 2010, 2009 and 2008, respectively, as non-cash amortization of stock compensation expense relating to the issuance of equity awards to our non-operations staff as described in note 13 to our consolidated financial statements.

(4) Depreciation and amortization includes $2.0 million, $0.2 million and $0.5 million for the years ended December 31, 2010, 2009 and 2008, respectively, of amortization of intangibles as described in note 5 to our consolidated financial statements.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenues. Revenues increased 32.3% from $191.0 million for the year ended December 31, 2009 to $252.8 million for the year ended December 31, 2010. Revenues from outsourcing services increased from $152.6 million during the year ended December 31, 2009 to $192.1 million during the year ended December 31, 2010. The increase in revenues from outsourcing services of $44.6 million (excluding the receipt of a one-time contract termination fee of $5.1 million in 2009) is primarily driven by revenues of $29.1 million from new clients, including the acquisitions of GTSC and PDMA, net volume increases from existing clients aggregating to $12.5 million and revenues of $3.0 million due to the appreciation of the Indian rupee against the U.S. dollar during the year ended December 31, 2010 compared to the year ended December 31, 2009.

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Revenues from transformation services increased from $38.4 million during the year ended December 31, 2009 to $60.7 million during the year ended December 31, 2010. The increase is primarily due to a combination of increased revenues in recurring or annuity decision analytics services and an increase in project-based engagements both in our decision analytics and risk and financial management practices. Revenues from new clients for transformation services were $4.1 million and $1.8 million during the years ended December 31, 2010 and 2009, respectively.

Cost of Revenues. Cost of revenues increased 38.3% from $109.4 million for the year ended December 31, 2009 to $151.3 million for the year ended December 31, 2010. The increase in cost of revenues is primarily due to a $13.4 million increase in employee-related costs as a result of an increase in the number of our personnel directly involved in providing services to our clients. The increase in costs of revenues can also be attributed to $13.7 million of employee-related costs incurred in connection with acquisitions, a $2.3 million increase in reimbursable expenses (resulting in an increase in revenues), a $7.1 million increase in facilities and other operating expenses (primarily due to acquisitions and the creation of new operating centers to meet business growth), and a $5.4 million aggregate increase due to the appreciation of the Indian rupee and the Philippine peso against the U.S. dollar during the year ended December 31, 2010 compared to the year ended December 31, 2009. Cost of revenues as a percentage of revenues increased from 57.3% for the year ended December 31, 2009 to 59.9% for the year ended December 31, 2010.

Gross Profit. Gross profit increased 24.3% from $81.6 million for the year ended December 31, 2009 to $101.5 million for the year ended December 31, 2010. The increase in gross profit was primarily due to an increase in revenues of $61.8 million, offset by the increase in cost of revenues of $41.9 million. Gross profit as a percentage of revenues decreased from 42.7% for the year ended December 31, 2009 to 40.1% for the year ended December 31, 2010, primarily due to the receipt of a contract termination fee of $5.1 million in 2009 and the impact of appreciation of the Indian rupee against the U.S. dollar.

SG&A Expenses. SG&A expenses increased 29.1% from $45.8 million for the year ended December 31, 2009 to $59.1 million for the year ended December 31, 2010. The increase in SG&A expenses is primarily due to an increase in employee-related costs of $8.0 million, including our continued investment in front-end sales and client management personnel, an increase in facilities-related costs of $2.2 million, primarily related to our new operations centers in Jaipur and Noida, India, an increase in other SG&A costs of $1.9 million including our acquisition related expenses and an increase of $1.0 million due to the appreciation of the Indian rupee against the U.S. dollar during the year ended December 31, 2010 compared to the year ended December 31, 2009. As a percentage of revenues, SG&A decreased from 24.0% for the year ended December 31, 2009 to 23.4% for the year ended December 31, 2010.

Depreciation and Amortization. Depreciation and amortization increased 38.8% from $11.4 million for the year ended December 31, 2009 to $15.9 million for the year ended December 31, 2010. The increase is primarily due to the increase in amortization of acquisition-related intangibles of $1.8 million, depreciation related to our new operations centers including our acquisitions of $2.0 million and an increase of $0.7 million due to the appreciation of the Indian rupee against the U.S. dollar. As we add more operations centers, we expect that depreciation expense will increase to reflect the additional investment in equipment and operations centers necessary to meet our service requirements.

Income from Operations. Income from operations increased 8.7% from $24.4 million for the year ended December 31, 2009 to $26.5 million for the year ended December 31, 2010. As a percentage of revenues, income from operations decreased from 12.8% for the year ended December 31, 2009 to 10.5% for the year ended December 31, 2010. The decrease in income from operations as a percentage of revenues was primarily due to the receipt of a contract termination fee of $5.1 million during the year ended December 31, 2009.

Other Income/(Expense). Other income/(expense) is comprised of foreign exchange gains and losses, interest income, interest expense and other items. Other income/(expense) increased from ($4.9) million for the year ended December 31, 2009 to $5.6 million for the year ended December 31, 2010, primarily as a result of net foreign exchange gain of $4.2 million during the year ended December 31, 2010 compared to net foreign exchange losses of ($5.9) million during the year ended December 31, 2009 attributable to movement of the U.S. dollar against the Indian rupee. The average exchange rate of the Indian rupee against the U.S. dollar was 45.65 during the year ended December 31, 2010 compared to 48.39 during the year ended December 31, 2009.

Provision for Income Taxes. Provision for income taxes increased from $3.7 million for the year ended December 31, 2009 to $5.5 million for the year ended December 31, 2010. The effective tax rate decreased from 19.0% for the year ended December 31, 2009 to 17.1% for the year ended December 31, 2010. The decrease in effective tax rate in 2010 was primarily due to the realization of a contract termination fee of $5.1 million in 2009 and was partially offset by the higher income in the U.S and our recent acquisitions which are fully taxable. Please see note 12 to our consolidated financial statements for further details.

Net Income. Net income increased from $15.7 million for the year ended December 31, 2009 to $26.6 million for the year ended December 31, 2010, primarily due to an increase in operating income of $2.1 million and other income of $10.5 million, partially offset by an increase in provision for income taxes of $1.8 million. As a percentage of revenues, net income increased from 8.2% for the year ended December 31, 2009 to 10.5% for the year ended December 31, 2010.

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

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

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

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

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

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

Depreciation and Amortization. Depreciation and amortization increased 2.2% from $11.2 million for the year ended December 31, 2008 to $11.4 million for the year ended December 31, 2009, primarily due to an increase in depreciation related to our operations centers in India and Philippines of $1.0 million and $0.2 million related to our new operations center in Olomouc, the Czech Republic. This increase is offset by the depreciation of the Indian rupee against the U.S. dollar, resulting in a decrease in cost of $1.0 million. As we add more operations centers, we expect that depreciation expense will increase to reflect the additional investment in equipment and operations centers necessary to meet our service requirements.

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

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

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

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

Liquidity and Capital Resources

At December 31, 2010, we had $114.3 million in cash and cash equivalents and short-term investments.

Cash flows provided by operating activities increased from $35.7 million in the year ended December 31, 2009 to $36.5 million in the year ended December 31, 2010. Generally, factors that affect our earnings including pricing, volume of services, costs and productivity affect our cash flows provided by or used for operations in a similar manner. However, while management of working capital, including timing of collections and payments, affects operating results only indirectly, the impact on the working capital and cash flows provided by operating activities can be significant. The increase in cash flows provided by operations for the year ended December 31, 2010 was predominantly due to an increase in net income adjusted for non-cash items by

$23.3 million, offset by a decrease in working capital of $22.5 million. The increase in net income adjusted for non-cash items is primarily due to an increase in net income of $10.9 million, depreciation and amortization of $4.4 million and decrease in deferred taxes of $6.0 million during the year ended December 31, 2010 as compared to the year ended December 31, 2009.

Changes in working capital are primarily due to an increase in trade accounts receivable of $8.2 million as a result of higher revenues, income taxes payable of $8.4 million due to payment of advance tax and an increase in other assets of $5.3 million as of December 31, 2010 compared to December 31, 2009. Our days sales outstanding decreased from 58 days as of December 31, 2009 to 57 days as of December 31, 2010.

Cash flows used for investing activities increased from $17.3 million in the year ended December 31, 2009 to $61.0 million in the year ended December 31, 2010. The increase is primarily due to the payment of the purchase consideration of approximately $29.1 million for the GTSC acquisition and $13.0 million for the acquisition of PDMA (net of cash acquired) during the year ended December 31, 2010.

Cash flows provided by financing activities increased from $0.5 million in the year ended December 31, 2009 to $2.9 million during the year ended December 31, 2010, primarily representing the increase in proceeds from exercises of stock options.

We expect to use cash from operating activities to maintain and expand our business. As we have focused on expanding our cash flow from operating activities, we continue to make capital investments, primarily related to new facilities and capital expenditures associated with leasehold improvements to build out our facilities and purchase of telecommunications equipment and computer hardware and software in connection with managing client operations. We incurred approximately $19.9 million of capital expenditures in the year ended December 31, 2010. We expect to incur capital expenditures of between $20.0 million to $25.0 million in the calendar year 2011, primarily to meet the growth requirements of our clients, including additions to our existing 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 client contracts we may enter into or the expansion of business under our existing client contracts.

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. Refer to note 16 to our consolidated financial statements for further details.

We anticipate that we will continue to rely upon cash from operating activities to finance our smaller acquisitions, capital expenditures and working capital needs. Based on economic conditions as of December 31, 2010, we believe that cash flow from operations will be sufficient to meet our ongoing capital expenditure, working capital and other cash needs in the near term. If we have significant growth through acquisitions, we may need to obtain additional financing.

Off-Balance Sheet Arrangements

As of December 31, 2010, 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, 2010:

	Payment Due by Period				
	Less than 1 year	1-3 years	4-5 years (in millions)	After 5 years	Total
Capital leases	$ 0.3	$ 0.4	$	$	$ 0.7
Operating leases	5.1	5.7	1.2	1.8	13.8
Purchase obligations	4.1				4.1
Other obligations(a)	1.0	1.8	1.6	2.4	6.8
Total contractual cash obligations(b)	$ 10.5	$ 7.9	$ 2.8	$ 4.2	$ 25.4

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

(b) Excludes $4.1 million related to uncertain tax positions, since the extent of the amount and timing of payment is currently not reliably estimable or determinable.

Certain units of our Indian subsidiaries have been established as 100% Export-Oriented units under the Export Import 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 on fulfillment of certain conditions. In the event that these units are unable to meet those conditions over the specified period, we may be required to refund those incentives along with penalties and fines. However, we believe that these units have in the past and will continue to satisfy those conditions.

Exl Philippines is registered as an Ecozone IT Enterprise with the Philippines Economic Zone Authority. The registration has provided the Company with certain incentives on the import of capital goods. Exl Philippines has an export obligation of approximately $39.3 million during the three year period ending March 2011.

Recent Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board (FASB) issued ASC 855, *Subsequent Events,* which provides guidance on events that occur after the balance sheet date but prior to the issuance of the financial statements. ASC 855 distinguishes events requiring recognition in the financial statements and those that may require disclosure in the financial statements. In February 2010, the FASB released Accounting Standards Update (ASU) No. 2010-09, an update to ASC 855, *Subsequent Events,* which revised various terms and definitions within the guidance and provided new guidance upon the date which entities must evaluate subsequent events. This ASU requires that we must evaluate subsequent events through the date on which the financial statements are issued, rather than the date the financial statements are available to be issued, and the disclosure of this date is no longer required in the notes to the financial statements. We have evaluated subsequent events through the date of this Annual Report on Form 10-K.

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

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guidance from January 1, 2011. Currently we do not expect there to be any impact from the adoption of ASU 2009-13 as the number of multiple-deliverable revenue arrangements are insignificant.

In January 2010, the FASB issued Update No. 2010-6, *Improving Disclosures about Fair Value Measurement* to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures regarding Level 3 fair value measurements which are effective for fiscal years beginning after December 15, 2010. The adoption of this new guidance did not have a material impact on our consolidated financial statements. See note 6 to our consolidated financial statements for further details.

In December 2010, the FASB issued authoritative guidance which specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combinations that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. Furthermore, this guidance expands the supplemental pro forma disclosure requirement. This authoritative guidance is effective prospectively for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. We do not expect the adoption of this guidance to have a material effect on our consolidated financial statements.

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 experienc in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you read and consider this 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 or business conditions;
- negative public reaction in the United States or elsewhere to offshore outsourcing;
- fluctuations in our earnings;
- our ability to attract and retain clients;
- restrictions on immigration;

our ability to hire and retain enough sufficiently trained employees to support our operations;

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

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

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

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

General

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

Our exposure to market risk is a function of our expenses and revenue generating activities in foreign currencies. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss. We manage market risk through our treasury operations. Our senior management and our board of directors approve our treasury operation s objectives and policies. The activities of our treasury operations include management of cash resources, implementing hedging strategies for foreign currency exposures, borrowing strategies, if any, and ensuring compliance with market risk limits and policies.

Components of Market Risk

Foreign Currency Risk. Our exposure to market risk arises principally from exchange rate risk. Although substantially all of our revenues are denominated in U.S. dollars (72.0% in the year ended December 31, 2010) or U.K. pounds sterling (24.3% in the year ended December 31, 2010), substantial portion of our expenses were incurred and paid in Indian rupees and Philippine pesos (58.4% and 5.9%, respectively, in the year ended December 31, 2010). We also incur expenses in U.S. dollars, the Czech koruna and the currencies of the other countries in which we have operations. The exchange rates primarily among the Indian rupee, the Philippine peso, U.K. pound sterling, Czech koruna and the U.S. dollar have changed substantially in recent years and may fluctuate substantially in the future.

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Our exchange rate risk primarily arises from our foreign currency revenues, expenses incurred by our foreign subsidiaries and foreign currency accounts receivable and payable. Based upon our level of operations during the year ended December 31, 2010 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, 2010 by approximately $0.5 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, 2010 by approximately $6.4 million.

We have sought to reduce the effect of Indian rupee and Philippine peso and certain other local currency exchange rate fluctuations on our operating results by purchasing forward foreign exchange contracts to cover a substantial portion of our expected cash flows. Further, a significant number of our customer contracts include protection against foreign exchange rate fluctuations which minimizes the impact of volatility in the exchange rates on our operating results. Forward exchange contracts with notional amounts of $129.1 million were outstanding at December 31, 2010 and of $80.7 million were outstanding at December 31, 2009. At December 31, 2010, the cash flow hedging derivatives had maturity periods of one to thirty-three months. These contracts must be settled on the day of maturity or may be cancelled subject to the payment of any gains or losses in the difference between the contract exchange rate and the market exchange rate on the date of cancellation. We use these instruments as cash flow hedges and not for any speculative purposes. We may not purchase contracts adequate to insulate ourselves from Indian rupee and Philippine pesos foreign exchange currency risks. In addition, any such contracts may not perform adequately as a hedging mechanism. We may, in the future, adopt more active hedging policies, and have done so in the past.

We hedge our net recognized foreign currency assets and liabilities with foreign exchange forward contracts to reduce the risk that our earnings and cash flows will be adversely affected by changes in foreign currency exchange rates. These derivative instruments hedge assets and liabilities that are denominated in foreign currencies and are carried at fair value with changes in the fair value recorded as foreign exchange gain/(loss). These derivative instruments do not subject us to material balance sheet risk due to exchange rate movements because gains and losses on the settlement of these derivatives are intended to offset revaluation losses and gains on the assets and liabilities being hedged. Forward exchange contracts with notional amounts of $36.9 million, GBP 8.4 million and EUR 0.79 million were outstanding at December 31, 2010 and of $9.3 million and GBP 7.7 million were outstanding at December 31, 2009. At December 31, 2010, the outstanding balance sheet hedging derivatives had maturities of 30 days or less.

Interest Rate Risk. We had cash, cash equivalents and short-term investments totaling $114.3 million at December 31, 2010. These amounts were invested principally in a short-term investment portfolio primarily comprised of highly-rated mutual funds, money market accounts and time deposits. The cash and cash equivalents are held for potential acquisitions of complementary businesses or assets, working capital requirements and general corporate purposes. We do not enter into investments for trading or speculative purposes. We believe that we have no material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. The interest income from these funds will be subject to fluctuations due to changes in interest rates. Declines in interest rates would reduce future investment income. A 1.0% change in short term rates would impact our interest income for the year ended December 31, 2010 by approximately $0.9 million.

Credit Risk. As of December 31, 2010, we had accounts receivable of $44.2 million. Accounts receivable from our two largest clients accounted for 17% and 15% of our total outstanding receivable as of December 31, 2010. We believe that our credit policies reflect normal industry terms and business risk. We do not anticipate non-performance by the counterparties and, accordingly, do not require collateral. Credit losses and write-offs of accounts receivable balances have historically not been material to our financial statements and have not exceeded our expectations.

ITEM 8. Financial Statements and Supplementary Data

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

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

None.

ITEM 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports the Company files under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer (CEO) and Chief Financial Officer (CFO), to allow timely decisions regarding required financial disclosure. In connection with the preparation of this Annual Report on Form 10-K, the Company s management carried out an evaluation, under the supervision and with the participation of the CEO and CFO, of the effectiveness and operation of our disclosure controls and procedures as of December 31, 2010. Based upon that evaluation, the CEO and CFO have concluded that, as of December 31, 2010, our disclosure controls and procedures were effective.

Management s Responsibility for Financial Statements

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

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

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

Management s Annual Report on Internal Control over Financial Reporting

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

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the Company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States;

provide reasonable assurance that receipts and expenditures of the Company are being made only in accordance with the authorization of management and board of directors of the Company; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the consolidated financial statements.

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

The Company s management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria described in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management s assessment included an evaluation of the design of the Company s internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of the board of directors. Based on this assessment and those criteria, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2010. See Ernst & Young LLP s accompanying report on their audit of the Company s internal controls over financial reporting.

Changes in Internal Control over Financial Reporting

During the three months ended December 31, 2010, 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.

On March 15, 2011, ExlService Holdings, Inc. executed severance protection arrangements for two of its named executive officers, Pavan Bagai and Rembert de Villa. Each severance protection arrangement provides that in the event the executive is terminated by us without cause (as defined in the severance agreement) or if the executive resigns for good reason (as defined in the severance agreement) following a change of control (as defined in the ExlService Holdings, Inc. 2006 Omnibus Award Plan), the executive will receive an amount equal to twelve months of the executive s then-current base salary. Mr. Bagai s severance payments are payable in twelve equal monthly installments, and Mr. de Villa s severance payments are payable in part as a lump sum equal to three months of base salary and nine equal monthly installments beginning three months following Mr. de Villa s termination of employment. Each executive s severance payments are subject to his execution of a waiver and release of all claims against us. Mr. de Villa s arrangement requires that he remain employed for at least six months following a change in control before he may resign for good reason. Additionally, Mr. de Villa must actively seek comparable employment during the last nine months of the severance period. Our severance obligation will be reduced by the amount of Mr. de Villa s new base salary, if any.

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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 2011 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, 2010.

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.

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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, 2010 and 2009, 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.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned hereunto duly authorized.

Date: March 16, 2011	**EXLSERVICE HOLDINGS, INC.**
	By: /s/ VISHAL CHHIBBAR **Vishal Chhibbar** **Chief Financial Officer** **(Duly Authorized Signatory, Principal Financial and Accounting Officer)**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ ROHIT KAPOOR **Rohit Kapoor**	Chief Executive Officer, President and Director (Principal Executive Officer)	March 16, 2011
/s/ VISHAL CHHIBBAR **Vishal Chhibbar**	Chief Financial Officer (Principal Financial and Accounting Officer)	March 16, 2011
/s/ VIKRAM TALWAR **Vikram Talwar**	Executive Chairman	March 16, 2011
/s/ STEVEN B. GRUBER **Steven B. Gruber**	Director	